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Carter Assistant Warns

U.S. Risks Oil-Linked Recession

By Edward Cowan

WASHINGTON, May 28 (NYT) — Stuart Eizenstat, President rter's principal adviser on do- stic policy, said yesterday that if e Organization of Petroleum Ex- rting Countries continued to se crude oil prices, there would a greater threat that the present ld slowdown in the U.S. econo- would turn into a recession.

Mr. Eizenstat's comment on a evision interview program ounted to an acknowledgment at inflation and the administra- n's measures to combat it — pri- rily restrictive budget and credit licies — might produce not only wer economic growth but also outright decline in business ac- ity accompanied by a rise in employment.

He said that the U.S. energy oblem had become chronic and g-term, and contended that the ws media had not helped the blic to understand the problem or Mr. Carter's proposed remedies.

"The press has grossly misinterpreted what the president has said and has been saying for 2¼ years," Mr. Eizenstat said.

Gasoline Supplies

As for gasoline supplies, he said that imports of crude oil — from which gasoline and other products are refined — were rising from low levels last month and this month but even so, gasoline supplies this summer would be no higher than last year. Meanwhile, demand has risen, causing a shortage, he said.

In unusually blunt terms, Mr. Eizenstat warned the 13 nations *that belong to OPEC that if they* continue to increase oil prices, "they are going to badly damage the world economy [and] the poorer nations with whom they profess to have a great deal of sympathy."

Mr. Eizenstat said that the administration was "quite confident that by the end of the year we will not have double-digit inflation." He said that food prices were expected to decline in the second half of the year. Administration economists have noted that abundant pork and poultry supplies already have pushed down prices for those foods.

Double-digit inflation means consumer prices are rising at a rate of 10 percent or more a year. In the February-March-April period, the rate was 13.9 percent. April's consumer price index, reported Friday, was 10.4 percent higher than a year ago.

Mr. Eizenstat said that OPEC prices were a key factor in the fight against inflation. "We have to have some cooperation from them," he said. The cartel has raised crude oil prices by 25 percent since the beginning of the year, he said, and that was excessive.

Lack of Consensus

One reason for Mr. Carter's difficulties with Congress over energy was a lack of consensus among the legislators, Mr. Eizenstat said.

A senior legislator on energy matters, Rep. John Dingell, D-Mich., said yesterday that Mr. Carter is making compromise harder to achieve by his criticism of Congress, particularly House Democrats. The House has rejected Mr. Carter's standby gasoline rationing plan and the Democrats last week went on record in caucus as opposing his proposal to phase out price controls on domestic crude oil.

Rep. Dingell, chairman of the House Commerce subcommittee on Energy and Power, said that Mr. Carter had violated one of the great rules in politics. It was, he said, "you don't castigate people too harshly in one fight when they might be your allies in a wholly different one."

Rep. Dingell defended James Schlesinger, the secretary of energy, saying that Mr. Schlesinger should not be removed by Mr. Carter and should not resign. He said that Mr. Schlesinger "has to tell the people the nasty and unpleasant things" about the energy shortage and that he has failed to get enough support from Mr. Carter.

He said that "a lot of decisions are being made in which Jim Schlesinger is neither consulted nor in which his comments or suggestions to the administration are properly heard."

As for the cause of the energy problem, Rep. Dingell said both major political parties were partly to blame and that it was an error to assign responsibility primarily to the oil companies.

Mr. Eizenstat, answering Democrats who object to ending oil price controls, said, "Controls have been an absymal failure. They've been a *disincentive to production and a disincentive to conservation.*"

The United States is moving into an era of tighter fuel supplies, Mr. Eizenstat said. "We can't resort to controls that got us into this mess. We've got to bite the bullet."

U.S. May Be Approaching New Wage-Price Spiral

By John M. Berry

WASHINGTON, May 28 (WP) — The wage and price outlook for United States has worsened so ch that not even a mild reces- n is likely to make much of a nt in the nation's underlying rate inflation, which now may be as h as 9 percent, according to a ior Carter administration offi- l.

Moreover, the country may be the verge *of a new acceleration* industrial wage and price in- ases that could push that under- ng rate even higher, warned the icial, who is one of the adminis- tion's chief inflation fighters. e official asked not to be identi- d.

If that further acceleration urs, he said, it could take unem- yment rates of close to 10 per- nt to reverse it.

Publicly, administration econo- sts are more sanguine about the lation outlook. Treasury Secre- y Michael Blumenthal has said t he hopes the rate will not be ch more than 8.5 percent, and official word still is that the rate expected to slow significantly xt year.

Some other key Carter advisers agreed with the official's pes- istic assessment, saying that it ll is possible to have both a slow- wn from the 13.9 percent rate of last three months to the under- ng rate of 8.5 percent, and also a p next year.

Even in the extraordinarily bleak essment the senior official ered, the sharp increases in the t of food, fuel and housing that ve pushed inflation rates into uble digits will slow later this r, he said.

But, in his view, the slowdown will be too late to prevent bigger wage demands from large industrial unions. "The acceleration [in inflation] from that is still to come," he said.

The expected slowing of the rate of economic growth, which may already have begun, is expected to have little effect on inflation. Even with such a slowdown, he said, "I would think you would get some rate of price increases . . . very close to 9 percent for the remainder of the year."

"You are talking about the basic underlying momentum of inflation. You're not talking about food and energy any more," he said. "And, in that sort of situation, a mild recession is not going to break that momentum of inflation . . . The economy may slow down, but it isn't going to stop the inflation."

The official said that he is afraid of an acceleration in inflation because he believes the following scenario could be played out this year and next: The Teamsters settlement in April, following a national strike, breached the administration's 22.5-percent pay standard for three-year contracts. Now the rubber workers are on strike against Uniroyal, also demanding more than the voluntary standard allows.

"If the rubber workers do manage to break the standards," the official *said*, "then the electrical workers will follow, the automobile workers will follow, and that will establish the pattern for the large industrial unions." The electrical workers' contracts expire in July, and the auto contracts Sept. 14.

United Press International

EMPTIES — Hundreds of beach chairs along the Baltic in Travemunde, West Germany, are going unoccupied because of continuing chilly weather. Normally, at least on sunny weekends at this time of the year, they are sold out.

28 Rebels, 4 Soldiers Slain As Nicaragua Clashes Flare

MANAGUA, May 28 (UPI) — Thirty-six persons, including 28 Sandinista guerrillas, were killed in fresh outbreaks of violence yesterday as the Nicaragua national guard observed the 52d anniversary of its founding.

New fighting here, in Leon and in the northern city of Jinotega coincided with celebrations marking the creation of the guard by the U.S. Marine Corps in 1927, authorities reported.

They said that 28 Sandinista guerrillas and four guardsmen were killed in clashes across the country. In Managua, they reported, three guardsmen were killed in a guerrilla attack on a patrol four miles north of the capital.

But government troops struck guerrillas with ground and air fire a mile from Jinotega, 99 miles north of Managua, in an attack that strengthened their takeover of the town from rebel control last week.

Attack at Electric Plant

The guard said that it killed at least 13 Sandinistas who attacked an electric power plant on Apanas Lake, north of Jinotega. A guard sergeant was reported killed and a soldier wounded.

In Leon, Nicaragua's second largest city, 55 miles northwest of the capital, reports said that fighting erupted yesterday.

The guard also said that it killed 16 Sandinistas Friday in an attack on the farm of Cornelio Hueck, the 68-year-old former president of the Nicaraguan Congress.

A ranch owner and a suspected robber were burned to death when the rancher's house caught fire, authorities said.

In Granada, 24 miles east of here, a Nicaraguan Bank cashier was killed in a holdup when troops and robbers exchanged gunfire, authorities said. They said that the robbers, who left the stolen money behind, escaped unharmed.

In an armed robbery in Juigalpa, 81 miles east of here, one person was killed and another wounded, authorities said. Managua gaurdsmen killed an unidentified youth, they said.

Dissident Homes Raided in Poland

WARSAW, May 28 (AP) — Police raided the homes of several dissidents and confiscated posters and photographs of Pope John Paul II, a spokesman for the dissident Social Self-Defense Committee said today.

In Bukowie near Lodz, police detained a man identified as Miroslaw Kimnes while he was collecting signatures for a petition asking full television coverage of the pope's June 2-10 visit, the spokesman said. Mr. Kimnes was subsequently sent to a psychiatric hospital, he added.

"We *are not exactly happy*," a church source said about the detentions and dissident activities. "The pope doesn't want any links with the dissidents. He wants a clement climate for his visit — here as well as in the West," the source said.

U.S. Recalls Envoy To Bokassa Regime

WASHINGTON, May 28 (AP) — The U.S. ambassador to the Central African Empire is being recalled to Washington in the wake of reports that about 100 schoolchildren were massacred by troops there last month.

Ambassador Goodwin Cooke is being recalled this week for consultations, the State Department said today. U.S. aid to the country has totaled $6.4 million since 1966, the year Emperor Bokassa I came to power.

U.S. Airlines Barely Feel Crunch in Fuel Supplies

By Winston Williams

NEW YORK, May 28 (NYT) — he U.S. shortage of crude oil, hich has left many drivers and rface-transportation systems arved for fuel, is barely affecting rvice on U.S. airlines.

As the commercial aviation in- istry prepares to enter a summer at promises to be the busiest peri- l in its history, airline executives y that spot shortages have declin- l and that fuel stocks appear to be fficient to get them through the ummer. Optimism about supplies ounds even though United Air- nes, *the largest U.S. airline*, sumes service today after a two- onth strike.

However, the carriers expect jet el prices at the end of the year to 30 percent higher than in Janu- y, and they say that fares are like- to rise as a result. Supply prob- ms may develop in the fall, they y, which could lead to some flight ncellations and ultimately to a owing of the industry's torrid owth pace.

Ready to Pay

Most oil companies are supply- ng the airlines with 95 percent of e fuel they used last year. But ome, like the Gulf Oil Corp. and ritish Petroleum, are supplying irlines with as much as they used st year. All have declared a mora- orium on new business. And the irlines have had to shop in the ex- ensive spot market, where sup- lies not committed to long-term contract are traded, to support their growing schedules.

But, as Richard Ferris, chairman of United Airlines, said, "I would much rather pay a higher price and be assured of an adequate supply than pay a lower price and stay on the ground."

American Airlines said that it is receiving about the same amount of jet fuel as last year, but that its schedule this year requires 10 percent more fuel. The airline has had turn to the spot market for the difference.

The industry's willingness to pay is a major reason for the airlines' relatively plentiful fuel supply. Price controls were lifted on jet fuel in February with the support of the carriers. They had worried that jet fuel, which competes to a limited extent with heating oil and diesel fuel for its share of the crude barrel, would be outbid by these decontrolled distillates.

The removal of price controls coincided with the spot shortages that rippled through the jet fuel market during the Iranian crisis and prices soared. Before the lifting of price controls, jet fuel sold for about 38 cents a gallon. Today, the major airlines are paying 46 cents a gallon on long-term contract and expect to be paying another 4 cents by December.

On the spot market, some carriers have paid prices up to $1.03 a gallon to save flights and to keep their passengers from flying with competitors.

The fuel expense is even greater for international airlines. Umberto Nordio, chairman of Alitalia, said that the Shell Oil Co. charged 69.5 cents to refuel Alitalia planes at Kennedy International Airport in New York. He has complained to Shell, but the company insisted that it was entitled to the price from foreign carriers.

Inadvertent conservation also has helped to increase the jet fuel supply. "The United strike certainly helped to stabilize the situation," said Edward Meyer, president of Trans World Airlines. "The spot shortages have just about disappeared." United Airlines normally consumes 24 percent of the industry's fuel.

The slow demand for home heating oil in the spring and summer also has served as a buffer between the carriers and chronic shortages. A small part of the crude that is suitable for fuel oil also is suitable for jet fuel and refiners increased their output of jet fuel as heating fuel consumption dropped.

Inventories also have improved. The American Petroleum Institute said that the industry's stockpile of 32.2 million barrels represents an improvement of 2.3 million barrels over a year ago.

Not Enough

Nonetheless, there is a feeling in the industry that most of these measures will not suffice indefinitely. "At some point we are going to have to scale back our growth plans," said Mr. Meyer of TWA. Mr. Nordio of Alitalia expects a far more severe crunch to hit in the mid-1980s.

Meanwhile, airline executives expect to recover part of their increased costs by raising fares. Energy costs are about 20 percent of airlines' total cost, up from less than 12 percent before 1973.

From October through February, U.S. carriers lost collectively $46.7 million, in contrast to profits of $97.6 million in the same period in 1977-78, and rising energy costs get much of the blame. Thus, despite a recent fare-cutting spree, the airlines said that fare increases are among the certainties in the supply picture.

Rare Public Attack by U.S. Justice

Marshall Assails Supreme Court Rulings

By Tom Goldstein

BUCK HILL FALLS, Pa., May 28 (NYT) — In a rare public display of sarcasm, bitterness and pique at his Supreme Court colleagues, Justice Thurgood Marshall attacked the court yesterday for insufficient protection of constitutional rights in two recent cases.

In both cases, one dealing with libel laws and the other with jailed defendants, Justice Marshall was among the dissenters, but in his comments here to a group of federal judges and lawyers, his critique of the majority was stronger and more pointed than in his written opinions.

Earlier this month, the court held that the practice of placing more than one inmate in a cell in the new federal jail in Manhattan was permitted under the Constitution. At the judicial conference, Justice Marshall accused his colleagues of showing no sensitivity to poor defendants who cannot afford bail, "preferring instead to provide us with such enduring legal homilies as, 'There is no one-man, one-cell principle lurking in the due process clause.' "

Then, departing from his text, the justice said, "For a prisoner in jail, that ain't funny."

It is highly unusual for any justice to criticize his colleagues in public or even to speak out about decisions.

Outspoken

On occasion Justice Marshall, who is among the most outspoken of the nine associate justices of the court, has publicly discussed decisions of the court. But the tone of yesterday's speech surprised members of the audience, many of whom are friends of the justice. Several judges and lawyers said yesterday that the justice was feeling increasingly frustrated and isolated as the court's most liberal member.

The theme of the judicial conference, which ends today, is the free press, and Justice Marshall criticized last month's Supreme Court holding that journalists do not have First Amendment protection in libel suits against inquiries into their thoughts and newsroom conversations with colleagues.

"Preserving a climate of free interchange among journalists is essential to sound editorial decision-making," Justice Marshall said. "Such collegial discussion will likely be stifled unless confidentiality is guaranteed."

In the jail case, the court also upheld a rule subjecting inmates to body cavity searches after every visit with a relative or lawyer. Justice Marshall said that he could think of no more degrading experience. He said most prison wardens disliked conducting such searches, and "those who don't should visit a psychiatrist."

After saying that pretrial detainees are "clothed with a presumption of innocence," the justice added, "That's before the Supreme Court decided the presumption didn't exist at all."

In the jail case, Justice William Rehnquist, writing for the majority, said that the presumption of innocence is an evidentiary rule dealing with the prosecution's burden of proof at trial and has no application to someone whose trial has not begun.

In another decision, announced last week, the court, with Justice Marshall again dissenting, ruled that in some cases the trial judge need not tell the jury about the presumption of innocence, even if the defense lawyer requests such an instruction.

Of the jail decision, Justice Marshall said, "I can only hope that district and appellate judges will read the decision narrowly."

Both Reversals

The Supreme Court decisions in the jail and libel cases were both reversals of opinions written by Irving Kaufman, chief judge of the Court of Appeals for the Second Circuit. Justice Marshall made his remarks here to judges and lawyers at the annual meeting of the Second Judicial Circuit, which is made up of New York, Connecticut and Vermont.

Justice Marshall, a former judge on the Second Circuit, concluded his speech by saying, "Ill-conceived reversals should be considered as no more than temporary interruptions."

Issues relating to the First Amendment were debated by lawyers and journalists in panel discussions following Justice Marshall's speech. The editorial process, said A.M. Rosenthal, executive editor of The New York Times, is "under serious attack and not from our enemies or from enemies of freedom." Instead, he said, judges who have "traditionally been philosophical allies of the press" have become "overseers of essential decision-making processes of the press — what to publish, when to publish, how to operate, what to think."

William Rusher, publisher of the National Review, said that journalists have become "subliminally conscious of themselves as members of a new class," a self-appointed class that wishes to "amend the Constitution informally."

Spain Court-Martial Of General Starts

VALENCIA, Spain, May 28 (AP) — A court-martial began today in the military headquarters at the nearby town of Marines to try the case of a Civil Guard (paramilitary police) general charged with insulting a superior officer.

Gen. Juan Atares Pena was arrested in November after he allegedly called Lt. Gen. Manuel Gutierrez Mellado, deputy premier for military matters, a traitor.

Javits to Lead U.S. Delegation To Sudan Talks

WASHINGTON, May 28 (AP) — President Carter has decided to send Sen. Jacob Javits, R-N.Y., to the Sudan as his personal emissary, the State Department has announced.

The department said Saturday that Sen. Javits and members of his delegation will seek to learn what assistance the government of Sudanese President Gaafar Nimeiri needs for its army and its economy. The delegation is due to leave next week, but the dates were not announced.

"The Javits mission is a further indication of the importance the president attaches to our relations with Sudan," the State Department said. Sudan, the southern neighbor of Egypt, has shown sympathy for President Anwar Sadat's peacemaking efforts with Israel.

However, Gen. Nimeiri said last week that his government has not yet taken a stand on the peace treaty between Israel and Egypt. He said that he had reservations about the Arab summit conference in Baghdad, which called for a break in diplomatic relations and other sanctions against Egypt. Sudan has maintained its relations with Cairo.

Sen. Javits will stop in Morocco at the invitation of King Hassan II on his way home, the department said.

U.S. Prohibits Dumping Water At 3 Mile Island

HARRISBURG, Pa., May 28 (AP) — The Nuclear Regulatory Commission, responding to public clamor over potential health risks, has blocked the discharge of highly radioactive waste water from the Three Mile Island nuclear plant into the Susquehanna River.

In an order issued Friday, the commission prohibited the release until a complete environmental assessment is made and alternatives are studied on plans to purify and then dump hundreds of thousands of gallons of water contaminated in the March 28 accident.

The commission staff said that it *did not know how long it would* take to complete the study, which will examine the potential risks to public health and safety.

About 450,000 gallons of highly radioactive water has flooded the floor of a containment building that houses the disabled nuclear reactor. The water was contaminated when the reactor core was exposed and radiation escaped into the environment.

The city of Lancaster and a citizens group called the Susquehanna Valley Alliance, representing the 110,000 persons who get their drinking water downriver from the contaminated facility, had filed separate suits in federal court to block discharges.

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Page 4 Tuesday, May 29, 1979

Staying Home, Eating Macaroni

The standard forecast for this year's inflation — a few early months of rapidly rising prices but then a relaxation — no longer seems plausible. The April figures are especially disruptive because the trend was supposed to be moving downward by this time. Prices are clearly off the expected track.

Last winter's chief culprit, the price of beef, is still rising like a rocket. Now it's joined by gasoline prices and, only comparatively less spectacularly, the prices of cars and houses. The extraordinary and damaging effects of the oil shortage are obviously contributing mightily to the pattern. But the very large price increases this spring have been sufficiently widespread and there is clearly no single, simple cause.

The classic cure is a recession, but each successive recession seems to have less effect on the inflation rate. The emerging strategy seems to be aimed, instead, at slow growth for a rather long time ahead. Restraint is now both necessary and inevitable. The country is entering a period of uneasy experimentation to see how tight the restraint can get without driving unemployment to unacceptable levels. How high would that be? It's not yet clear, but the country seems prepared to tolerate a rate perhaps around 7 percent. The mechanism for tighter restraint is going to be, simply, higher taxes.

Congress won't have to raise them. Inflation does it automatically, by pushing people into higher brackets. Traditionally, Congress has interceded regularly with tax cuts to keep the burden within accustomed limits. That tradition would normally ordain another tax cut next year. But it looks very much as though Congress is going to hold off.

That's a courageous decision and, unfortunately, it's the right one. The only really effective way to control the price of beef is to switch to chicken — if not to macaroni. The best hope for slowing gasoline prices is to stay home. Americans haven't shown much inclination to do either, voluntarily. But now the mighty engine of the federal tax system will push them into it. It's not quick, and it's not going to be a lot of fun. But nobody really has any other strategy to offer.

That dangerously candid man Alfred Kahn, the president's adviser on inflation policy, put it explicitly at the administration's somber press conference on the April figures. "There's no way we can avoid a decline in our standard of living," he said. "All we can do is adapt to it."

THE WASHINGTON POST.

An Attack on Apartheid

So solidly is "apartheid" identified in the public mind with racial injustice and legal repression that many people find it hard to imagine that this sytem of white-minority control in South Africa has any capacity for internal reform. Some people, of course, believing that apartheid is irredeemable, see an eventual openly violent convulsion as the only way out. Others, while not yet ready to consign a whole society to revolution, tend to play down whatever hopeful signs may from time to time appear in order to spur the ruling whites to further change. Almost no one, however, can pretend to have anticipated the full scope of reforms, plans and stated official intentions that have come to light in South Africa in recent days.

The new program breaks down into two parts. In the first, the government is moving toward various reforms in labor and employment, housing and property., and personal rights. In the second, the government is exploring ways to consult nonwhites in matters affecting their daily lives and the future of their communities, and to bring them into a political process. Such is the well-deserved suspicion of nonwhites toward their white rulers that each of these projects has been criticized as hedged and inadequate and as designed merely to confuse the people and to throw foreign critics off the scent. At the same time, these measures have startled many blacks and stirred tentative hopes in some of the most thoughtful among them that the government just may be starting to provide them an alternative to violence and despair.

Is it so? The only answers that count are South Africans'. Outsiders can note, however, that there is always at bottom an element of the gamble in any great process of social change. Neither the people trying to manage it nor those who stand to be affected by it can know how it will come out. Sensing this, some whites resist even these preliminary steps for fear that they will put South Africa on a slippery slope from which there is no escape short of the loss of power. So-called "enlightened" Afrikaners are nonetheless willing to venture forth. They calculate that whatever the risks of starting, they are smaller than the risks of standing fast.

Blacks have another dilemma. A few among them have already set out on the revolutionary path — a very long one. But despite everything, more than a few remain ready to take a white hand offered in good faith. They cannot do so, however, without receiving assurance that they will not merely be risking personal destruction and a loss of political credibility. The government's own past deceit and neglect accounts for this state of affairs, and it puts a burden on the government to go to double lengths now.

The government's recent gestures are far from adding up to a record of performance that would earn it confidence. The jury is out, and will be for some years, on whether it is possible at all to reform apartheid in ways consistent with the dignity of non-whites. Yet it is hard not to take notice when the Rand Daily Mail, no government patsy, says, "In the past week there has been greater and more hopeful racial change than we have had in the nearly 31 years that the Nationalist government has been in power," and when blacks of substance pay careful, if quiet, attention.

THE WASHINGTON POST.

Central America's Agony

In 1932 desperate peasants in El Salvador rebelled against their feudal rulers, and upwards of 20,000 people, an unbelievable number, were killed. In 1979 the masses and the elite of Central America's poorest and most torn country are still at odds in essentially the same ways. The only thing new is that the latest cycle of violence, involving police murders of several large groups of demonstrators, the assassination of yet another government minister and the taking of hostages in several foreign embassies, has reached the international press.

* * *

The feeling that El Salvador represents only the serial unfolding of a Marxist cliche can easily lead to the conclusion that the Salvadoran people would be better off if revolution overtook the land. That would create other problems for the people, and send tremors through security-minded elements in the United States. But the present government, a military-based regime that came to power through electoral fraud, is as devoid of legitimacy as of competence. What new order would not be an improvement?

The State Department had denounced the manifest human-rights abuses of the Salvadoran government — and of similar military regimes elsewhere in Central America. Thus has it earned the resentment of those governments — for ostensibly fanning rebellion — and the resentment of opposition elements — for not following through with a more systematic anti-government policy. The halfway nature of the American approach flows from two familiar considerations: a reluctance to throw gas on a fire that could blaze up out of control and produce "another Cuba," and an inclination to try to locate and strengthen moderates to steer change by non-violent means.

The Senate Foreign Relations Committee, either despairing of this policy or not understanding it, recently eliminated the modest amounts of direct foreign aid going to El Salvador, Guatemala and Nicaragua, the key country. The committee's vote was probably a mistake. The gesture of repudiation may win some points, but it contributes to a sense that the United States is washing its hands of Central America and this is likely to diminish any tendency by the regimes to conciliate their foes.

* * *

Aid as an economic tool may be hard to apply well at the moment in those three convulsed countries. Aid as a political tool can perhaps be used to reduce the convulsions and expedite reforms. It is not much of a hope, and not much of a policy, but it is more responsible than despair and withdrawal, which feed the flames.

THE WASHINGTON POST.

In the International Edition

Seventy-Five Years Ago

May 29, 1904

PARIS — In a recent discourse on the color of water, Dr. Harvey W. Wiley of the Committee on Food Standards declared that "you can drink muddy water with perfect safety, because germs cannot live in mud, but they can live in clear water even after it has been filtered." But the grave question arises, what shall eventually become of those who have an inordinate dread of poison from clear water and yet object to taking their dose mixed with mud? What, indeed, is to become of the poor man who cannot help himself. Still, philosophically speaking, pure mud is dirt.

Fifty Years Ago

May 29, 1929

BERLIN — At the Socialist party congress meeting here today Chancellor Mueller won support of his program to support credits for an armored cruiser in this year's budget. This support indicates a long lease of life for the ruling Grand Coalition. The Chancellor had warned that its failure would entail his resignation, the downfall of the Government and a Cabinet crisis, the outcome of which might well be dictatorship. The Chancellor justified his support of the cruiser by arguing that it was the only way for Socialists to have any say in the Government.

'Death to the Infidels! — Right God?' 'Stop Putting Words in My Mouth.'

Bert Lance to Have His Day in Court

By William Safire

WASHINGTON — "No victims, no losses," an attorney for Bert Lance confidently told a friend after a federal grand jury handed up its 1,500-word indictment. Bert's defenders are certain that their man can beat the rap.

They could be right. At his Atlanta trial, Lance will take the offensive against the "national media," which caused a reluctant Congress and Justice Department to investigate his wheeling-dealings. Meanwhile, the "local media," notably columnists Hal Gulliver and Bill Shipp of the Atlanta Constitution, will continue to influence local jurors with ringing defenses of the man they see as the unfairly put-upon friend of President Carter. (Only five years ago, I was writing those same everybody did-it defenses; hang tough, fellas, it gets worse.)

The government charges that the depositors and stockholders of banks were bilked of $500,000 by the kited checks and preferential loans of the Lance gang over the years.

Of more political significance, President Carter's closest long-time associate and personal banker stands accused of a cover-up of a political Ponzi scheme: for a period including the eight months he served as the Carter administration's most important Cabinet member he is charged with conspiring "to defraud the United States of America, that is, to hamper, hinder, frustrate, defeat, impair, and impede by craft, trickery, deceit and dishonest means the lawful and legitimate functions" of six different government agencies.

SEC Charges

The indictment is a respectably detailed follow-up of charges made in the press and by the Securities and Exchange Commission and the comptroller of the currency; the prosecutors broke little new ground in 20 months of investigation.

One item of interest: On Oct. 25, 1977, two months after the $3.5-million "sweetheart loan" from Robert Abboud's First National Bank of Chicago had been publicly branded "substandard" by the comptroller, Abboud's bank loaned Bert an additional $81,153 he needed to pay the interest on that loan. The helpful Abboud is evidently President Carter's favorite banker; he was the only member of that fraternity (all eager for China connections) to be invited to the state dinner at the White House for Deng Xiaoping.

But the 33-count indictment is more interesting for the sensitive area it avoids than for the charges it dutifully follows up.

Consider the pattern: To finance his own campaign for governor, Bert Lance used the bank he headed (in "reckless disregard" of its interests, says the indictment) to induce the largest bank in the Southeast — Citizen's and Southern National Bank — to lend $250,000 to one of the accused conspirators. Lance's bank established a pattern for using other banks to "front" for loans to all kinds of enterprises, including Bert's 1974 campaign for governor.

To finance Jimmy Carter's 1976 campaign for president, did Bert Lance and friends follow this successful pattern? The indictment is silent; Lance prosecutors claim that "following the tangent" is not their job.

Pattern Sought

But in the early days of the Carter campaign, several of the same banks named as "fronts" in last week's indictment were heavy lenders to Lance; to the Rafshoon advertising agency (which advanced $625,000 to the Carter campaign at a crucial moment); to the Carter family businesses; and to the Carter political campaign.

If the accusation holds up, and Lance is found to be a financial-political swindler, then it would be safe to assume that he would have repeated his pattern. Since Bert's alleged conspiracy worked during and after his own campaign, is it not logical to suggest that the same pattern — the same kind of conspiracy — may have been used to finance the Carter campaign? Did the same planner indirectly divert campaign funds or unlawful bank loans out of — or into — the Carter family business?

When Justice prosecutors reached this too-hot-to-handle intimation last year, the probe was paralyzed for four months; after some agitation by a few of us, a special counsel was appointed to "follow the tangent." Last week, counsel Paul Curran served a subpoena on White House counsel Robert Lipshutz for the operating statements of the businesses controlled by candidate Carter, which the president has long refused to make public, and parts of which I suspect have been destroyed.

The Carter warehouse financing, masterminded by Bert Lance, is only one part of the complex scheme to fund the Carter campaign. Unfortunately, counsel Curran still appears to be wearing blinders: asked about the advertising agency's role, he claims that such a matter is being looked at by the Justice Department; not his jurisdiction. Nobody seems to want to put the whole sordid picture together.

The narrowly circumscribed Lance indictment — the first Lance indictment — is one piece of a jigsaw puzzle. We shall see whether Philip Heymann at Justice, and special counsel Paul Curran, are willing to find the other pieces in the darkest recesses of the White House.

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Outwitting the Computers

By Anthony Lewis

BOSTON — A recent column about a personal experience with the bureaucracy of private institutions — a hospital's computer harassing me to pay a sum I did not owe — struck a nerve with readers. They wrote about their troubles with hospitals, Blue Cross, credit card firms and the like. Some had thoughts about how to fight the machine.

A New York lawyer said the aim was to "transfer the source of frustration to the frustrater." He accomplished that, he said, by writing to the president of a company that was threatening him over an incorrect bill.

His letter said the company could save a lot of money in the looming lawsuit "by now paying my usual hourly rate to make a search of my records for materials showing they were clearly wrong. In the same letter I requested a retainer of $100 to start me on the search. By return mail I got a letter from the vice president stating that they had looked at the records found the correspondence and the matter was herewith straightened out. It really was!"

The problem with that approach is that letters usually go directly to the computer, which cannot read. Several readers said the way to deal with that was to punch additional holes in computer cards before returning them, making the computer scream and getting the attention of a human being.

The idea then is to write your message on the face of the punched card. It is a little bit like the story about the Chinese fortune cookie with the slip that said: "Help. I am a prisoner in a fortune cookie factory."

The dean of a distinguished law school had a tested method of dealing with bills that are too high. When a company persists in overbilling and ignores your letters, he said, just send a check for the amount you actually owe and write on the face of the check, "Payment in Full." The computer probably will pay no attention to the message; the check will just be deposited. But when the company turns the file over to a lawyer to collect the additional amount, he will be stymied.

"There is poetic justice in using the mindless insensitivity of the bill-senders against them," the dean wrote. He warned that an obscure provision of the Uniform Commercial Code had been read by a few courts to let creditors accept such checks and still demand more, but he said he hoped this incorrect interpretation was being overcome.

A high-powered lawyer in Boston described what he did for a client whose mind was twitching after a year of wrong bills from American Express. Letters got nowhere, and the last notice warned that his credit rating was about to be ruined.

"When my client came to me with that notice," the lawyer wrote, "I grabbed him by the arm, and we went to the Eastern shuttle at Logan Airport. From LaGuardia we took a taxi to the world headquarters of American Express. We took the elevator to the office of the chief legal counsel, and we walked past his secretary and barged into his office. We found him sitting at his desk.

"I plopped down the year's correspondence and file memoranda and demanded that he review the situation. Somewhat to my surprise, he removed his suit coat, rolled up his shirt sleeves and reviewed the material. He concluded that the AMEX billing computer was wrong. He then told us to wait for a half hour or so, and he left the office. When he came back, he said he had found someone who understood the computer and who corrected the error. Next month's statement was right."

Eternal Hope

The lawyer added that he had charged the shuttle fares on his American Express card — "hope springs eternal." But someone had to pay in the end, and that was the client. With four shuttle fares, four taxis and today's rates for high-powered lawyers, I figure it cost the client well over $500 to straighten out that bill.

From London, a lawyer on sabbatical leave suggested a way for the less affluent to fight the computerized bureaucracy on equal legal terms. One or more law schools ought to set up organizations staffed by students, he said, which at little or no cost would provide forms and legal advice to the victims.

But it was not only lawyers who wrote. A retired university librarian told about his effort to pay a minor bill at a hospital — so small that he decided not to bother trying to collect from Blue Cross. He guessed that it took two man-days of effort to get it done, and he said: "No wonder hospitals are expensive. I like to think that if I had gone into hospital administration instead of libraries, things would be a little better."

Then there was a gentleman from Verona, N.J., who was told by a Social Security clerk when he was 72 that it would take two years for a computer to get a new benefit to him. When he said he might not live that long, the clerk replied, "Don't worry. It will be paid to your estate."

"We are in an age of dehumanized arcane technologists," the gentleman wrote. "But I have outwitted the computers by living to be 81."

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Letters

Taxation Abroad

I have just read the report on the overseas tax law by Jane Friedman (IHT, April 30) and feel obligated to comment on it. As a contract auditor for the U.S. government in Saudi Arabia, I am involved in the tax problems of U.S. expatriate employees. However, my opinion is not biased because income exclusions are not available to U.S. government employees.

It would appear from Mr. Brockway's comments that Congress enacted the 1978 tax law primarily because it think Americans living abroad should be taxed at levels equivalent to Americans in the United States. This logic is bad. Instead of being concerned about overseas employees paying equivalant taxes, Congress should concentrate its efforts toward assuring that U.S. companies are competitive in foreign markets such as Saudi Arabia and that they can utilize a maximum of U.S. expatriate employees versus third country nationals. This action would favorably affect the balance of payments, unemployment, the U.S. image abroad, etc.

To raise individual income taxes makes U.S. companies less competitive because it only increases the salaries that must be paid to attract U.S. employees to overseas locations. It does not decrease net pay. This is because most companies pay tax allowances to its employees, and if the tax law changes, the salaries are increased as necessary to achieve a desired net pay. These tax allowances are necessary to attract U.S. citizens to overseas locations.

In Saudi Arabia, for instance, even with tax allowances, employee turnover rates are normally about 20 percent. To combat the high cost of U.S. labor caused by poor tax legislation, most U.S. companies now have a work force that consists primarily of third country nationals. This is in spite of the fact that it takes three third country nationals to equal the productivity of one American.

In conclusion, I think the time is right for Congress to reassess a poor piece of legislation. The 1978 tax law also causes many potential tax-revenue dollars to be lost by forcing U.S. companies out of foreign markets or obliging them to hire third country nationals.

GARY E. MCCULLOUGH.
New York.

'Common Good'

In the May 15 issue of the IHT, The Washington Post, in an editorial called "Destabilizing Nicaragua," explains to us that the International Monetary Fund's loan to Nicaragua (meanwhile granted) is politically "profoundly regrettable" but necessary "from the viewpoint of the common good." The IMF, The Washington Post tells us, is an international system stacked for the benefit of sitting governments, and there is much to be said for playing by the international rules.

The same issue of IHT brought still one more of the unending reports of atrocities committed by President Somoza's guardsmen (in this case two 12-year-old boys and one boy aged 11 machine-gunned along with their family.) In Nicaragua, by now, the entire population has turned with helpless hatred against the dictatorship of Somoza, yet we are told it is "for the common good" playing the rules that will keep him in power.

Why talk of the common good when what is at stake in Nicaragua is the good of the banks that invested heavily there.

LEONORE SUHL.
Portimao, Portugal.

The International Herald Tribune welcomes letters from readers. Short letters have a better chance of being published. All letters are subject to condensation for space reasons. Anonymous letters will not be considered for publication. Writers may request that their letters be signed only with initials but preference will be given to those fully signed and bearing the writer's complete address. The Herald Tribune cannot acknowledge letters sent to the editor.

Iran Terror: A Backlash Building Up

By George W. Ball

LES-BAUX, France — "The Ayatollah Ruhollah Khomeini last night joined the swelling list of ayatollahs and mullahs forced to face the harsh justice of the firing squad. Some foreign observers saw the event as paralleling the guillotining of Robespierre, which marked the end of the French reign of terror. Others were not so hopeful."

Will a report such as this appear in the press sometime during the next two years? Signs of a backlash against the capricious old ayatollah are already perceptible.

Intellectuals are protesting a repression even harsher than the shah's. The Westernized middle class increasingly resents being hobbled by an anachronistic moral code. The unemployed are only temporarily mollified by welfare payments channeled through the mosques. Even the religious leaders have split into factions, with the reformist element coalescing around the Ayatollah Mahmoud Taleghani, while nihilist gangs shout the slogans of the late Islamic theologian, Dr. Ali Shariati.

Regional ethnic separatism threatens Iran's integrity as a nation. Although Khomeini's highly publicized vengeance distracts attention from his regime's appalling ineffectiveness, the urge to kill is reinforced by the need to eliminate those capable of counterkilling. Thus, as one fanatacism struggles to replace another, the revolution may — to quote the French leader Vergniaud, who foresaw his own guillotining — behave "like Saturn. . .and devour, in turn, each one of its children."

Many Groups

No doubt the ayatollah's regime would have a longer life expectancy had the shah's overthrow resulted solely from an Islamic reaction. It was by no means the work of a single group for a single purpose, but a revolution of a thousand discontents.

During 26 years, the shah, by cruelty, corruption and sometimes well-intentioned ineptitude, alienated almost every sector of the population. The nation finally took flame when groups with disparate grievances rallied together under the banner of Islam for the sole purpose of dislodging a hated ruler. Once they had achieved that narrow objective, a power struggle was inevitable.

In that bitter struggle, the ayatollah's makeshift regime is only the first phase of what seems certain to be a long and bloody conflict. Sooner or later, he will be replaced as the Iranian people increasingly comprehend his incapacity to run a complex economy and his mulish unwillingness to let anyone else run it.

In spite of bravura promises, the ayatollah's henchmen seem unable even to agree on a constitution to legitimize their pretensions. Alhough $60 million a day flows into the country, both inflation and unemployment contine to increase, while the economic machinery barely kicks over. More and more, the oil fields — the nation's vital revenue source — fall under the control of workess' komitehs, which threaten to dictate the nation's oil policy.

But if the ayatollah's rule is only the first phase of a weary struggle, who seems most likely to win in the end? Our interests would best be served by a victory of Mohammed Mossadegh's heirs, the National Front (a democratic grouping of professional and business people, journalists and academics), perhaps in loose coalition with the moderate clergy — but having been excluded from political life for almost three decades, the front members are old or inexperienced.

The qualities most decisive in the revolutionary dynamic — conspiracy, discipline and structure — are traditionally found in the army or the extreme left. The precedent of Persian experience would suggest another Reza shah (the shah's soldier-father, who seized power in the early 1920s), but no such militant leader has yet appeared, nor is the army more than a shadow of a disciplined force.

Although the left becomes progressively bolder and more assertive, even it is split between the old Tudeh Party, presumably close to Moscow, and the terrorist gangs that mouth the words of Mao rather than Lenin.

If the shape of the future has yet to emerge, there is little America can do at the moment to influence it. An appropriate diplomacy must emphasize vigilance and patience — a watching brief with a willingness to exert useful influence when the time is ripe. Unhappily, such a role is not congenial to our national temperament.

(The author, an investment banker, was undersecretary of state from 1961 to 1966.)

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INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Chairman
John Hay Whitney
Co-Chairmen
Katharine Graham
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Publisher
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International Herald Tribune, S.A. au capital de 1 200 000 F. R.C. Paris No 73 B 2112
179/181, avenue Charles de Gaulle, 92521 Neuilly-sur-Seine Cedex
Tel 747-12-65 Telex 612718 Herald Paris Cables Herald, Paris
Le Directeur de la publication Walter N. Thayer
Daily except Sunday
In U.S.A.—Subscription price $235 yearly
Second class postage paid at Long Island City, N.Y. 11101

Commission Paritaire No 14 231
1978

News Analysis

Rebel Rivals Threaten War in Rhodesia

By David B. Ottaway

LUSAKA, Zambia (WP) — Joshua Nkomo and Robert Mugabe stood together outside the smoking ruins of Mr. Nkomo's bazooka- and bullet-shattered home in the fashionable residential Longacres area of Lusaka. "What the enemy wants to achieve has not been done," Mr. Mugabe shouted to a crowd of sympathetic Zambians, referring to the apparent Rhodesian attempt to kill or kidnap Mr. Nkomo during a commando raid here April 13.

"Together we are determined to carry the battle to the finish," said Mr. Mugabe, who lives in the Mozambican capital of Maputo.

It was a rare demonstration of unity for the co-leaders of the Patriotic Front, the shaky alliance of about 40,000 guerrillas who first fought to overthrow the white-minority Rhodesian government and now are fighting to oust the black-led regime that will take office Friday under Bishop Abel Muzorewa.

For years, Rhodesia's black guerrilla leaders have been moving apart, fighting for the same cause but from opposite sides of the country and with separate backers in Africa and the Communist world.

To the growing despair of Africa, the Soviet Union, Cuba and particularly the so-called front-line states — Zambia, Tanzania, Angola, Botswana and Mozambique — the prospect of a second civil war between the armies of Mr. Mugabe and Mr. Nkomo looms ever larger; both men are stepping up efforts to gain military and political dominance inside Rhodesia and diplomatic supremacy outside.

The possibility of such a confrontation is becoming black Africa's newest political nightmare. It could affect whether a number of moderate African states decide to stick with the Patriotic Front or to recognize the elected Muzorewa government.

'Landmark' Meeting

The two Patriotic Front leaders met for three days in Addis Ababa, Ethiopia, earlier this month, and said that the meeting was "a luminous and heroic landmark" in the nationalist struggle. They did not announce a merger of their political parties, however, and they rejected a front-line proposal that they set up a provisional government their backers could recognize. But they agreed to establish a coordinating council to lead the Front and to revive a joint defense council to coordinate war tactics.

Still, basic differences remain. Mr. Nkomo insists that political unity must precede a fusion of the armies, while Mr. Mugabe argues the reverse. Their arguments probably reflect the relative strengths and weaknesses of their organizations.

Mr. Mugabe's Zimbabwe African National Union accounts for the majority of the 12,000 guerrillas inside Rhodesia, and controls considerably more territory and population. Mr. Nkomo's Zambabwe African People's Union has superior experience in political organization and could outmaneuver Mr. Mugabe and his lieutenants in a unified political alliance. Mr. Nkomo, 61, is the grandfather of Zimbabwe nationalism. He is a master at political maneuvering, and Mr. Mugabe and his aides fear and respect him for it.

Officially, both men deny the possibility of a civil war between their forces, each numbering at least 20,000. They say that talk of such conflict is the work of the imperialist press. But few outsiders — African, Western or Eastern — still believe that, and Tanzanian President Julius Nyerere has expressed fears about the increasing likelihood of a second civil war between the Patriotic Front's two wings.

The history of Rhodesia's black nationalist movement is one of infighting, power struggles and broken alliances. Tribal conflicts, personal ambitions, differing political strategies and ideologies and sheer pride all have helped to divide the movement since it began with formation of the African National Congress under Mr. Nkomo in 1957.

Bishop Muzorewa is an exponent of capitalism who says that socialist experiments in Africa have been failures. Mr. Mugabe, 51, is an avowed Marxist, and Mr. Nkomo is a socialist whose ideology has not been defined.

Battlefield Labor

What separates the internal and external nationalist leaders above all is the feeling among the latter that Bishop Muzorewa is reaping the fruits of their battlefield labor — which forced Rhodesia's whites to hand over power.

Mr. Mugabe's ZANU has adopted "Marxism-Leninism-Maoism" as its ideology, and has a Maoist war strategy of first conquering the countryside before storming the cities. Mr. Nkomo, under apparent Soviet advice, has concentrated on building a more conventional army and using such sophisticated weapons as the surface-to-air missiles that have brought down two Air Rhodesia passenger planes.

Throughout the Rhodesian struggle, Prime Minister Ian Smith has been a master manipulator of the rivalries and divisions among the nationalists, playing one leader or faction against the other. At least part of the division between Mr. Mugabe and Mr. Nkomo can be traced to Mr. Smith's repeated successes in getting Mr. Nkomo to negotiate with him.

But the front-line leaders must also bear some of the blame for creating a deep fissure in the guerrilla movement. Zambian President Kenneth Kaunda has shown a strong preference for Mr. Nkomo; it stems from their friendship in the early years of the nationalist struggle against British colonial power in Zambia and Rhodesia.

Presidents Nyerere of Tanzania and Samora Machel of Mozambique have taken a partisan stands in favor of Mr. Mugabe and ZANU, which was founded in 1964 in Dar es Salaam at Mr. Nyerere's urging.

Divided Support

The Communist world also has been divided in its support. Until recently, the Soviet bloc was helping only Mr. Nkomo, while China backed Mr. Mugabe. In the past year, however, the policies of the Eastern bloc have shifted somewhat under prodding from Mr. Nyerere, Mr. Machel and Ethiopian leader Lt. Col. Mengistu Haile Mariam. Cuba has begun to help train Mr. Mugabe's guerrillas in Ethiopia, and Hungary has sent arms to Mozambique, reportedly for Mr. Mugabe's guerrillas.

Meanwhile, the Soviet Union, sensing that Mr. Mugabe holds a military advantage inside Rhodesia and fearful that Mr. Nkomo might lose in a civil war, has been pushing hard, with Cuba, for unity in the Patriotic Front.

But many are skeptical that the two wings will unite, even if they formally accept a plan under pressure, because of the Patriotic Front's history of intense and bloody feuding. Attempts in 1975 and 1977 to form a single military body proved a disaster, with ZANU and ZAPU guerrilla trainees fighting one another in camps in Tanzania and Mozambique.

Outside observers, particularly those who watched the development of the Angolan civil war, see in all this the seeds of another ugly nationalist power struggle. And Rhodesia's would be far worse than Angola's, because both factions have large, well-armed forces with strong backers in Africa and in the Communist world.

Venezuela Gulf Study Set

CARTAGENA, Colombia, May 28 (UPI) — Presidents Julio Turbay of Colombia and Luis Herrera of Venezuela agreed yesterday to establish a joint committee to study a long-standing border dispute over potentially oil-rich waters in the Gulf of Venezuela.

United Press International

NEW ARRIVALS — Vietnamese refugees sit in a Hong Kong dockyard waiting to be taken to camps. They are among the 1,029 persons who arrived on Sunday aboard 15 fishing boats that sailed into the harbor, bringing to 34,000 the number of refugees in the British colony.

2 Parties Reject Cabinet Posts

Muzorewa Nominee Wins Presidency

SALISBURY, Rhodesia, May 28 (AP) — Josiah Gumede, a former schoolmaster and civil servant, was elected today by Parliament as Rhodesia's first black president, despite threats of a split in the proposed multiracial government of national unity.

The president, 59, superintendent of the Njube black township in Bulawayo, the major city in Matabeland, is to be sworn in tomorrow. He was nominated by Prime Minister-elect Abel Muzorewa and is to call on Bishop Muzorewa to form a government.

The threat of a split came when two parties with the smallest representation in the 100-seat Parliament, dominated by Bishop Muzorewa's party, rejected four Cabinet posts to which they are entitled.

One dissident party, the Rev. Ndabaningi Sithole's Zimbabwe African National Union, also said they would not take their 12 parliamentary seats. The United Federal Party of Chief Kayisa Ndiweni, which won nine seats in Parliament, would not take up its two Cabinet posts and indicated they would serve as a parliamentary opposition. Under the constitution two Cabinet posts should go to each of the minority parties. In last month's elections, Bishop Muzorewa's United African National Council won 51 parliamentary seats; 28 seats are automatically reserved for whites.

Tribal Bridge

Mr. Sithole contended that the elections were riddled with irregularities and has said he would seek a court ruling to invalidate the results.

Mr. Gumede, raised an N'debele, from Chief Ndiweni's Matabele tribe, is expected to symbolize a bridge between his people and the dominant Shona tribe of Bishop Muzorewa. Chief Ndiweni also had nominated an N'debele, Ngundu Ndhlovu, for the presidency.

The N'debeles, who make up 15 percent of the country's seven million blacks, claim they will have a weak voice in Rhodesia's first black-dominated government to be proclaimed along with the new state of Zimbabwe Rhodesia on Friday.

Before Friday, Bishop Muzorewa is to appoint his Cabinet ministers, who will be drawn from each of the four parties in proportion to the number of parliamentary seats held. He said that his government will rule whether the dissident parties take their seats and Cabinet posts. If elected members do not fill their seats within 21 days of the installation of Parliament they forfeit their places. There are no by-elections in such circumstances.

The installation of Bishop Muzorewa's government will in principle end 90 years of white minority rule but is expected to continue to be beset with the escalating six-year war. The guerrillas contend the constitution gives blacks the trappings of power but preserves white control. Efforts by Bishop Muzorewa to win international recognition for his country would be difficult if the dissidents refuse to join his coalition administration.

Party Chooses Bhutto's Wife

LAHORE, Pakistan, May 28 (AP) — The executive committee of the Pakistan Peoples Party unanimously elected Nusrat Bhutto as party chairman to succeed her husband, Zulfikar Ali Bhutto, who was executed last month.

Mrs. Bhutto, who was officially named Saturday, had assumed leadership of the party when her husband was arrested and convicted last year of ordering the assassination of a political rival. Mr. Bhutto was hanged April 4.

Party officials said Mrs. Bhutto is prohibited under martial law from taking an active part in politics and her daughter, Benazir, will serve temporarily as party chairman. But the choices appear symbolic as both women were taken into custody two months before the execution and are in a police camp.

Before Carter Visit

U.S. Official Sent to Seoul To Investigate Repression

WASHINGTON, May 28 (NYT) — The administration has sent a senior official to South Korea to look into alleged repression there before President Carter's visit late next month.

Officials said that Deputy Assistant Secretary of State Mark Schneider was in South Korea to gather information on alleged violations of human rights, an issue that has long troubled U.S. relations with South Korea.

The officials said that when Mr. Schneider returned, his views would be incorporated in the agenda for Mr. Carter's meeting with President Park Chung Hee in Seoul. Mr. Carter plans to visit Seoul after his journey to Japan and the economic summit meeting in Tokyo.

The trip to Korea will underscore the problem that has faced the president since he took office: how to reconcile the strategic interests of the United States with his desire to make the advance of human rights a mainstay of foreign policy.

In South Korea, officials here said, Mr. Carter will face the problem of trying to persuade Mr. Park to ease his authoritarian rule while at the same time not giving the North Koreans the impression that U.S. support of South Korea has weakened.

The officials also said that while they were certain the human rights issue would be on the agenda, the president and his advisers had not decided what form it would take.

Critics of Mr. Park, including U.S. missionaries in South Korea, opposed Mr. Carter's visit, which, they said, would be exploited to give the impression that the United States supported the regime.

They have accused Mr. Park and his subordinates of imposing a dictatorship on South Korea, of restricting political and economic rights and of jailing politicians, writers, clergymen, scholars and students for speaking out against the government.

South Korean officials consistently defended the president's strong rule as necessary to protect the nation against the threat from North Korea and for economic development.

Balanced View

When Mr. Carter's trip to Seoul was announced, Park opponents shifted tactics and urged Mr. Carter to persuade Mr. Park to lift some of his retrictions. They also asked him to meet with Mr. Park's political opponents to get a balanced view.

Three opposition leaders, Kim Dae Jung, who was Mr. Park's last opponent for the presidency; Yun Po Sun, a former president, and Ham Suk Han, a religious leader, wrote Mr. Carter last winter asking for his help in obtaining the release of the estimated 200 to 400 political prisoners in South Korea and the repeal of decrees that they said deprived Koreans of political freedom.

South Koreans who live in Washington said that a senior official in the administration, possibly the president, had answered the letter but that they did not know what was said. They also said that last winter Korean residents in the United States had begun a letter campaign aimed at the White House and would continue it until Mr. Carter went to Seoul.

4 U.S. Newspapers To Report in Peking

PEKING, May 28 (AP) — The Foreign Ministry said today that it has given permission to four U.S. newspapers to open permanent bureaus in Peking.

They are The New York Times, the Wall Street Journal, the Los Angeles Times and the Washington Post. The Associated Press and United Press International reopened Peking bureaus two months ago after a 30-year lapse.

2 Papers Predict Vorster Will Quit In Fund Scandal

JOHANNESBURG, May 28 (AP) — Two newspapers predicted yesterday that President John Vorster will resign soon because of new revelations in the South African Information Ministry scandal.

The Sunday Express, quoting sources in the ruling National Party, said that Mr. Vorster would resign in a matter of weeks and would give ill health as the reason.

The Sunday Times said that Mr. Vorster was expected to step down next month, with Transport Minister Lourens Muller a strong choice to become the white-minority government's fifth president.

Mr. Vorster, the prime minister for 12 years, resigned last September and was given the largely ceremonial presidential post.

The Express said that the government-appointed Erasmus Commission investigating the secret use of government funds for propaganda had uncovered new information about Mr. Vorster's role and will file its third report in a few days.

Jazz

Sonny Murray: 'Messing' The National Percussion

By Michael Zwerin

PARIS, May 28 (IHT) — Sonny Murray replaced the marking of meter by drummers with surging tension: a flexible, abstract, revolutionary sort of swing. Musicians refused to play with him.

Pianist Cecil Taylor was having the same problem. Murray talks about the first time he met Taylor, at a Greenwich Village loft session in the late '50s: "The other guys said: 'If this cat plays, we split.' I'm a guy from the streets, so I always like the underdog. I said to myself this guy must be heavy if he's got everybody running away from him."

The so-called "New Thing" or "Free Jazz" is still controversial. Beboppers still refuse to play with free jazzmen, among whom the persecution factor is notorious. To play free or not free is still the subject of conversation, certainly Sonny Murray's conversation, and the other afternoon in Paris he lay in bed wearing a bathrobe and sunglasses reflecting on slings and arrows suffered in the cause.

Career Problems

"I remember a bass player named Wade something. He used to disappear every so often. Finally he went crazy. This new music makes people disappear sometimes. It's difficult to keep a career going. We've built a generation of listeners, so it's a little easier now. Our music was the music of their time. Actually it's the music of every time, as long as we can afford to play it.

"It's funny, too, how the new generation of commercial musicians uses our music as food for thought, whether they like it or not. Look how commercial music has changed, especially film scores and studio writing. They've used complexions and colors from Ornette Coleman, George Russell and Cecil Taylor. For myself, I know I've contributed a lot to messing up the national percussion for the last 20 years.

"Drummers used to tell me: 'I can't play your way. What are you doing?' I didn't even know what I was doing. How were they going to know? One night I was working in the Five Spot and Eric [Dolphy] and John [Coltrane] picked me up on their shoulders and carried me over to the bar. They said, 'Man, we don't know what you're doing, but keep doing it.'

"Cecil and I were rehearsing to make a record but Nat Hentoff, the producer, said: 'I can't use that drummer. Why don't you get Billy Higgins?' I called Nat on the phone. I told him I thought he was a jive creep. Later that week I ran into him in the zoo. We were both with our kids. He shrunk back. I said: 'I'm not going to do nothing to you. I may have seemed hostile, but I was hurt.'

"Hoods began to get on me and Cecil. A lot of joints were complaining that our new music didn't sell drinks. They attacked Cecil on the street and broke his wrists.

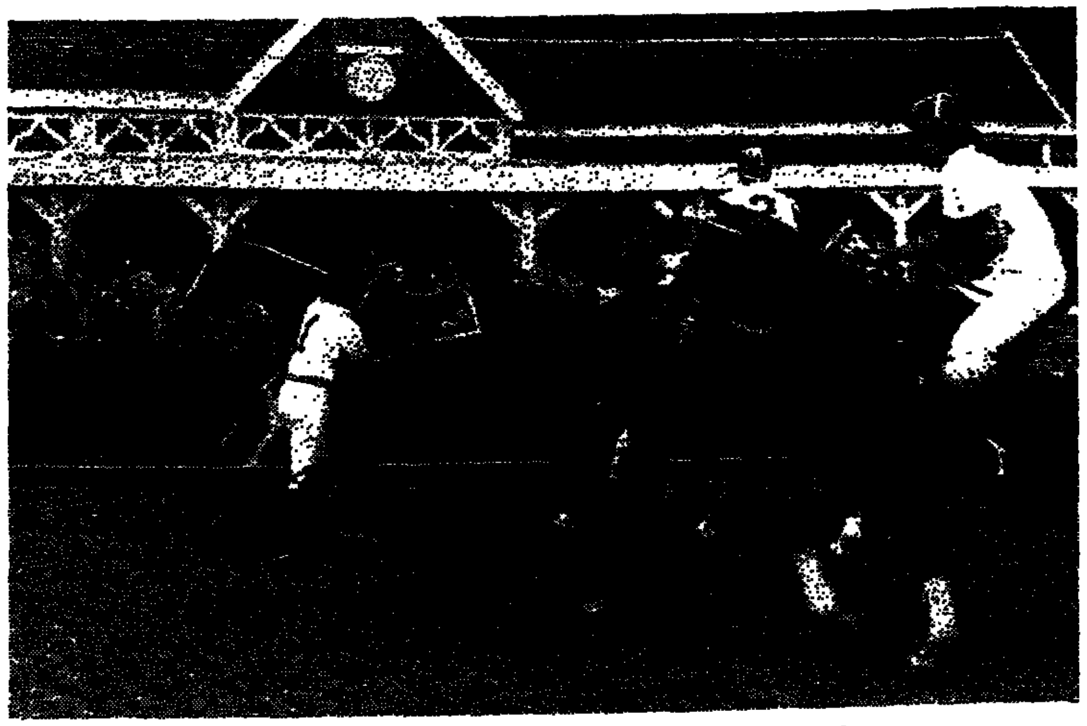
"They came at me in a car in front of the Vanguard one night. I mean, seriously, brakes screeching and all. I dove for cover behind some garbage cans on Perry Street. When I got home I looked out the window and saw the same Thunderbird. Two dark-haired cats, one fat, one thin, got out and looked for me but they couldn't find which apartment I was in.

"The mob paid [he named a well-known free jazz player] not to play for two years. They gave him a big fine woman too . . . I asked him if it could be true that they were trying to hurt me. He said: 'Yeah, they're trying to hurt you.' He took me up to his girl's house. She's the kind of chick that knows a lot of musicians. She worked for the mob. She told me all about what was going down. She said I'd better stop working for a few months. I was over in the corner, tears in my eyes.

"Cecil had three operations on his wrists so he could keep playing. When he came out of the hospital, he said: 'Let's go to Europe.' "

Sonny Murray Trio: Groningen, Netherlands, June 1; Moers New Jazz Festival, Moers, West Germany (near Duesseldorf) June 3.

A polo opening in 1895, as pictured in an ad from High Life Tailor.



Last week at the Bagatelle in the Bois de Boulogne in Paris.

Polo

The Sport of Maharajahs Is Taking a More Democratic Turn — Well, Maybe

By Hebe Dorsey

PARIS, May 28 (IHT) — Polo, a sport of princes and playboys, millionaires and maharajahs, is taking a bit more democratic turn in France — maybe.

Baron Elie de Rothschild lost an eye playing polo when he got hit by a ball but he has kept both his sense of humor ("I always knew that sport would cost me an eye.") and his dedicated interest in the sport. Now president of the Polo Union of France, he feels that it is a matter of do or die for the sport.

"Unless we do something about it," he said in his bank's office, "the sport will die. The problem with polo is that it's still associated with Rubirosa, Aly Khan and now Prince Charles. But all that is out. Already, the quality of polo has dropped because of a lack of interest from the general public.

"It's no longer a question of wealth and prestige and a nice cup of tea in a 'My Fair Lady' setting," the baron said. "One has to stop this business of polo being confidential and elitist."

A rough, challenging, difficult and exciting sport, polo goes back to 8th-century Persia, where it was played by tribes fighting over a yak-skin ball, or *pulu*, a word borrowed from Tibet, one of the places where the game shortly spread.

The British Army picked it up in India from the marahajahs and introduced it to the Western world. In France, it has had its ups and downs, the ups coinciding with the golden, pre-World-War-II, pre-taxation era. One of the most noted downs was the folding of the French cavalry, which, with its easy access to horses, contributed a lot to the sport.

Seeking a Public

Right now, the baron is hoping to attract the general public by opening the Polo of Bagatelle's games, which started last week and will be held every weekend until the end of June.

"Mind you, we've always been open to the public," the baron said, "but, let's face it, we didn't advertise it much."

All that is changing. There is a big sign advertising the game on the road to Bagatelle, in the Bois de Boulogne, and a little man in a booth to collect the 10-francs-a-person fee. But the entrance is on the other side of the field, near the Suresnes bridge, and the public sits on wooden stands, across from the pretty clubhouse with its tables and parasols. While the purists will tell you that the stand is a better spot to watch the game, it is still far from being as chic as the tea-party and let's-have-the-latest-gossip lawns, and that, despite the baron's arguments, is still half of the game's attraction.

A deeper way of getting people involved in polo is by having more people playing it — a feat which has been achieved in the United States, "where there is a polo revival, with 10,000 players as against 200 in France," the baron said. "All we have to do is follow their example, and most notably, that of my friend Bill Ylvisaker."

The turnaround apparently came with the introduction of paddock polo, a game that is played on a much smaller, if less-manicured field. That means the horses get less tired (which cuts down their numbers from four to two per player per game) and that also cuts down on field upkeep, for this backyard polo can be played almost anywhere.

Improvements

"Already, there are improvements in France too," the baron said, "for a lot more people ride. We have 30 clubs and five teams that have played polo at La Courneuve," not exactly a chic area, situated as it is in the Paris Red Belt suburbs.)

Young men playing polo in France have also learned to cut down on expenses by pooling their resources. The only polo lords left in France are Guy Wildenstein and promoter Robert de Balkany. The latter has not only his own team but his own polo field in front of his chateau near Paris.

Even if it becomes a popular game "it will never be as cheap as *petanque*" (the game of *boules* that originated in the south of France,) the baron said, "but it need not be more expensive than tennis or golf.

In the meantime, things are still a long way off from the crowds that attend football games or the races. Last Thursday, for the season kickoff, the organizers made an effort not only by opening the games to the public but also by putting together a strong team, consisting of the best players in Paris, for the forthcoming season.

The sun was shining, and the field, surrounded with century-old trees (the clubhouse dates back to 1895), was idyllic. Not enough, however, to have the common folk fighting to get in — and the grand total of admissions came to 34. At that, a close look at the stands showed that, despite the no-cup-of-tea ambiance, those were quite substantial-looking people, including a group of teen-agers in very chic riding clothes.

Minding Manners

On the club side, things have not changed much through the years. The crowd had a large percentage of distinguished, if slightly short-tempered, old men in custom-made blazers and signet rings who did not take too well to the number of toddlers. But the young men, in tweeds, neat narrow ties and cashmere sweaters, all looked like President Valery Giscard d'Estaing's establishment sons, and the girls, who ranged from pretty to very pretty, wore their tight-as-tight-can-be jeans with the latest Cartiers. As for the youngsters, they ran around with miniature mallets but never for a minute forgot their hand-kissing manners.

The talk consisted mainly of, what else, polo and polo players, including Prince Charles, who has played in Deauville (THE place for professional polo in France) and was not considered as such a hot player, with a three-handicap. "But then, people don't dare push him around too much," said one of the most rugged players around.

The only faintly democratic note was when the announcer asked everybody to please go walk on the field and push the turf back into place. They all got up, on the chic side, slowly followed by the others from the non-chic stands. But even so, there was not much democratic mixing there, and it was very much each to his own turf.

Actually, an organizer explained, while they are opening polo to the public, they are not making its access very easy by having the nearest parking lot two miles away.

The only people who could be, and often are, interested, he said, come from the only camping ground in Paris, which happens to be just across the road.

"But they're not bums," he added. "They come from all over the world to visit Paris, its beauties, its monuments. They're educated and some are quite wealthy. There's a lot of Bentleys and Jaguars around."

Democratic? Who said democratic?

Opera

Soederstroem in 'Fidelio' Opens Glyndebourne

By Henry Pleasants

GLYNDEBOURNE, England, May 28 (IHT) — Advance notices for the new season of the Glyndebourne Festival, which opened here last night, included an obvious eyebrow raiser: Leonore in the inaugural "Fidelio" would be sung by Elisabeth Soederstroem, undertaking the role for the first time in her long and illustrious career.

She has been a favorite at Glyndebourne ever since her debut here as the composer in "Ariadne auf Naxos" in 1957, appearing in more than 100 performances as Oktavian, Susanna, the Countess in "Capriccio," Christine in "Intermezzo" and Tatiana in "Eugene Onegin. Of these only the transvestite role of the composer suggests any affinity with the Leonore of "Fidelio."

First Time

The Leonore we heard and observed in Peter Hall's new production proved to be just about what one expected of so intelligent, dedicated and accomplished an artist: a thoroughly thought out, thoroughly professional assumption of a role for which, neither vocally nor physically, is she ideally endowed.

To be remembered, or course, is that this was a first time, and under the pressures of an opening night. Given Miss Soederstroem's determination and perspicacity, her Leonore will gain in assurance and dramatic detail, if hardly in the vocal amplitude required in the climactic episodes.

Much the same may be said of Peter Hall's production, again a matter of much intelligence and insight, but still in need of greater fluency and the subduing of some superfluous activity by the prisoners in their scenes in the prison yard and in the parade ground finale, especially obtrusive in so small a theater. John Bury's stage designs are fine, especially the first, set ingeniously and effectively in the garden of Rocco's house beside and just inside the prison gate.

If Miss Soederstroem's casting as Leonore was the surprise of this production, the Rocco of Curt Appelgren, a Swedish bass making his first appearance outside his native land, was the joker in the pack. Taking his cue from Rocco's early apostrophe to money, he made of the jailer an amiable, avuncular cynic, and clearly achieved the characterization of the evening. He won the ovation of the evening, too — and earned it. Other roles are all in capable hands.

Things in the orchestra, with Bernard Haitink presiding, were much as they were on the stage. Haitink's affinity for tempi either very slow or very fast, and for dynamics either very soft or very loud, inhibited continuity, and individual instruments were too often conspicuous and obtrusive. A "Fidelio," in short, that still needs some playing in.

Historic Island

Harrod's Owner Buys Scottish Site

By Leonard Downie Jr.

LONDON (WP) — Scotland's island of Iona, cradle of Scottish Christianity and burial place of St. Columba and 60 ancient kings, has been purchased by Sir Hugh Fraser, the Scottish millionaire who owns Harrod's department store in London.

The Fraser family foundation agreed to pay just over $3 million for the 1,900-acre island off the western coast of Scotland and then give it to the government to preserve "for the nation" its Abbey Church, ancient cemetery and tiny village of 80 fishermen and sheep-raising crofters.

The windswept island, which was owned by the Scottish dukes of Argyll for nearly 300 years, is being sold by trustees for the 10th Duke of Argyll, who died in 1973, to pay $1 million in death taxes and a $2-million repair bill left by a fire at the Argyll family's Inveraray Castle.

Britain had been beset by rumors for months that the island might be bought by Americans or Arabs who would try to develop it as a tourist resort with hotels on its sandy beach and a golf course or two where sheep now graze on greenswards divided by rock fences. Only the abbey and graveyard were believed certain to be safe. The eighth Duke of Argyll gave them to the Church of Scotland in 1899.

But the 12th Duke of Argyll, 41-year-old Ian Campbell, who is also chief of Scotland's Campbell clan — being directly descended from Sir Colin Campbell, who was knighted in 1286, and Baron Campbell who became the first Earl of Argyll in 1457 — insisted that he and the other trustees of his grandfather's estate would sell only to someone who could afford to preserve Iona's heritage.

St. Columba, who was born in Ireland in 521, landed on Iona in 563 and made it his base for wide-ranging journeys to spread Christianity throughout Scotland, Ireland and northern England. When he died in 597, he was buried outside his abbey on Iona, but his remains were stolen by Norse raiders 200 years later. There is still a dispute over whether they were ever returned.

For the next 500 years, Iona became the burial place of 48 Scottish, eight Norwegian, four Irish and two French kings — among them the Scottish King Duncan, buried there in 1040 after his murder by Macbeth. Throughout the middle ages, Iona was also the final resting place for West Highland's chieftains.

Although raiding Vikings destroyed the original abbey and the markers of most of the royal graves, the abbey built by Benedictine monks in the 13th century and the remains of the ancient cemetery have been visited by a steady stream of pilgrims and notables through the centuries.

Keats and Wordsworth wrote poetry there; Sir Walter Scott found it "desolate and miserable." But Dr. Samuel Johnson visited Iona and then wrote "that man is little to be envied whose patriotism would not gain force upon the plain of Marathon, or whose piety would not grow warmer among the ruins of Iona."

Sir Hugh Fraser, 42, said through a spokesman that he was buying Iona in memory of his father, who built a retailing empire, the House of Fraser, from a family drapery firm, acquiring Harrod's, its crown jewel, in 1959.

Lewis Painting Sale

LONDON (Reuters) — An anonymous buyer has paid a record £220,000 ($440,000) at Christie's for a picture painted in 1869 by the British artist John Frederick Lewis. Christie's said it was a world record price for a painting by Lewis. The picture, called "An Intercepted Correspondence, Cairo," shows a Turkish pasha sitting on cushions with three women nearby. Lewis spent 10 years in Cairo, and also worked in Spain and Greece.

On the Arts Agenda

An evening of musical theater by Mauricio Kagel will be given three performances May 29, 30 and 31 at the Salle Favart (Opera Comique) in Paris in a co-production of the Paris Opera, Ensemble InterContemporain and the opera companies of Metz and Cologne. The program includes six pieces by Kagel, who will be responsible for the musical direction.

* * *

Performances of Rameau's opera-ballet "Pygmalion" paired with Rebel's ballet "Les Elements," both in productions by the English Bach Festival, will be given May 30 and 31 in the Opera Royal of the Versailles palace in the program of the Versailles Festival, which runs until June 27. Other festival events include performances of excerpts from "La Betulia Liberata" and sacred works by Mozart May 29 in the Chapelle Royal; Bach's St. John Passion June 7 in the Eglise Notre-Dame, and concerts by the Northern Sinfonia of England, conducted by Jean-Bernard Pommier, June 12 in the Theatre Montansier with Augustin Dumay as violin soloist, and June 14 in the Opera Royal with Teresa Stich-Randall as soprano soloist.

* * *

The violinist Paul Zukofsky and the pianist Jacqueline Mefano will give a concert of 20th-century American music May 31 at the American Center for Students and Artists in Paris (261 Boulevard Raspail), including works by Ives, Scelsi, Riegger, Cage and Feldman. On June 5 and 6, two performances will be given of choreographies by Susan Hayman-Chaffey and dancers in the workshop she has been conducting at the center, and on June 7 the Solaris Dance Theater will give a similar performance with some of its workshop participants.

* * *

A four-week Nureyev Festival, being given in London for the fourth year, will open June 5 at the Coliseum and will combine works new to London and revivals from previous festivals. The opening week will offer Nureyev's staging of "Romeo and Juliet," first done in 1977 for the London Festival Ballet; his 1975 production of "The Sleeping Beauty" for the Festival Ballet will follow beginning June 12; beginning June 18, the program will commemorate the 50th anniversary of the death of Serge Diaghilev and the centenary of the death of August Bournonville, and in the final week, from June 25, Nureyev will appear with the Murray Louis Dance Company in works given last year in New York and Paris seasons.

* * *

Two short operas by Donizetti, "Rita" and "La Campanella," will be given by the Belgian National Opera on June 8, 9, 10, 12 and 13 in the small theater of the Theatre de la Monnaie in Brussels. Ronald Zollman will conduct. Phil White will stage, and sets and costumes will be by Christine Mobers.

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INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
PARIS, MAY, 1979

Banking and Finance In the Arab World

Egypt: Returning Banks Provide New Challenges

By Alan Mackie

CAIRO (IHT) — The arrival of about 70 foreign banks in the wake of President Anwar Sadat's open-door policy has given the center of Cairo a facelift. New gleaming chrome-and-glass facades are one of the most visible signs that the door is opening on Egypt's creaking economy.

However, the foreign banks have made more than a cosmetic impact. Twenty years of centralized rule under Gamal Abdel Nasser left the domestic banks with little to do beyond financing the public-sector debt. Business was farmed out on a strictly pro rata basis, eliminating competition. The four main clearing banks, National Bank, Bank of Alexandria, Banque de Cairo and Banque Misr, had little opportunity to practice normal banking. Skills acquired from the foreign banks during decades before nationalization were lost.

So the return of foreign banks provided a much needed shock to the banking system. But some local banks complain that they are not sufficiently protected from this novel competition.

For a time, they certainly were not. There were complaints that the newcomers were poaching the best staff members, offering salaries that the nationalized banks — caught in the web of public-sector wage scales — could not match. They were also criticized for concentrating on financing trade instead of on investment projects — the reason, in the eyes of the investment authorities, they are allowed to operate in Egypt.

Constructive Role

Criticism of the foreign banks has largely subsided during the past six months. In the past year, the influx of new banks has petered off — partly because there were signs of Cairo becoming overbanked and partly because the authorities, registering their disapproval with the way some foreign banks were operating, let it be known that new licenses would be difficult to get.

The main reason, however, is that the foreign banks are now beginning to find their feet and to play a more constructive role.

Until recently, many had found themselves embarrassingly flush with cash, with nowhere to place it. This is changing. Tom Dunton of Citibank says he now has a number of promising investment possibilities, a situation that did not exist a year ago. The Misr Iran Development Bank and Cairo Barclays International, which from the start have taken a more pronounced investment profile, already have projects in operation. MIDB was helped in its early days (in 1975) by funds from an Iranian protocol. It assisted in starting a $72-million textile plant near Suez and is preparing feasibility studies on a $400-million fertilizer plant on the Red Sea.

Cairo Barclays hoped to marshal Arab funds for investment projects but so far has concentrated on smaller projects, in the $250,000 to $10-million range. Barclays is involved in 17 operating projects to which it has $14 million committed and $10 million disbursed. Its general manager, Gavin Greene, reports a steady stream of new projects the bank is interested in.

At the grass-roots level, signs have slowly but discernibly emerged that Cairo could develop into a capital market.

Foreign Exchange

Contrary to the general impression, Egypt is not short of foreign exchange. This in itself is a remarkable turnaround. Barely two years ago, nationwide riots erupted in the wake of bread-price increases demanded by the International Monetary Fund as the first step to economic reform. The country was hauled back from the brink of bankruptcy by a $2-billion cash infusion from the Gulf states and Saudi Arabia.

Now, foreign-exchange earnings of more than $3 billion a year (from workers' remittances, Suez Canal and oil revenues and tourist income) have created a situation in which Egypt is close to paying its

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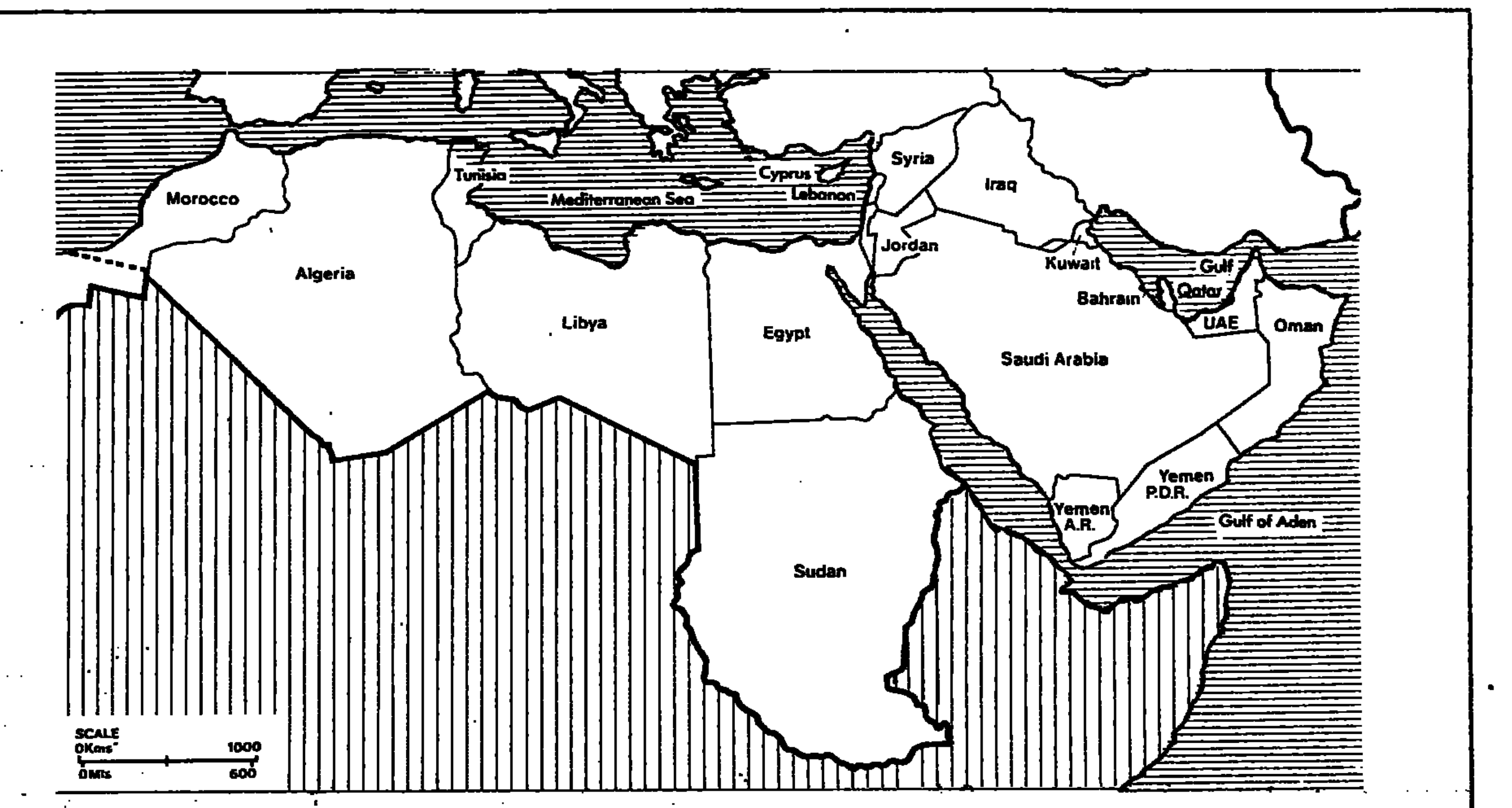
Saudi Arabia: Conserving the Money Surplus

By Mary Jo McConahay



RIYADH (IHT) — Less than 30 years ago, Saudi Arabia still had no paper currency of its own. It depended on a variety of foreign notes, some coins and "pilgrim receipts" — notes for riyals issued during the pilgrimage to Mecca that came to be accepted as paper money.

In April, 1979, the Saudi Arabian Monetary Agency, which acts as a central bank, reported mid-1978 total bank cash at more than 18 billion riyals ($5.3 billion), with assets and liabilities totaling 52.51 trillion riyals. During the three fiscal years ending in mid-1978, the commercial bank balance sheet grew more than four and a half times. And in 1978, Saudi Arabia again had the largest national money surplus in the world.

This rapid transition is often overlooked by foreign businessmen when they say SAMA is cautious to a fault. The Saudis continually cite their short history with big money in order to put their extremely conservative fiscal policies into perspective.

We will take our time, the Saudis say. Internationally, too much has come to depend on our every move to extend ourselves too far too fast.

Koran's Caveat

And, they might add, despite the fact that individual goverment planners here are considered brilliant or wise by their peers in other nations, the Saudi people are simply not accustomed to handling money. They do not have the merchant heritage of the Kuwaitis, for instance, and their strict interpretation of the Koran's caveat against usury has kept many Saudis suspicious or even antagonistic about banks.

The excessive local use of demand deposits may be traced not only to the recent lack of savings and investment opportunities available to Saudis but also to this religious proscription.

The richest nation in the world in terms of hard cash is still strapped with a downright archaic domestic system of retail banking. Computerization, for instance, is hardly used. It is not rare to see large amounts of money carried in a paper bag or a suitcase. This is not yet a check-book society.

The incongruity of the situation was sharply brought home recently to an officer of a partly Saudi-owned American multinational company headquartered in the Eastern Province when he tried to settle an account with a luxury hotel in Riyadh. The businessman presented a check for a million riyals to pay for an exposition of advanced technology systems. But the hotel would accept only a check drawn on a bank in the capital because one from the company's account in Dammam would have to be sent by mail and take a full workweek to clear.

System Limited

Not only is the system old-fashioned, it is limited in number to merely a dozen banks, and these are kept on a tight rein by SAMA. All must place half of their deposits in excess of 15 times their capital with the agency, without interest. For liquidity, banks must maintain deposits with SAMA equal to 15 percent of their outside liabilities, together with a further 15 percent in cash or near cash. No single loan in excess of 25 percent of paid-up capital may be made without approval from SAMA.

These strictures have undoubtedly limited the role of domestic banks in the kingdom's development. And not all the grumbling is from big companies.

Earlier this year, a Medina newspaper chided commercial banks for "making the rich richer and the poor more miserable" because they were not geared to assist people in starting a business and because loans were too hard to obtain "for the average man." The solution, said the paper, is to allow more banks to open.

Abdul Rahman al-Sai, director general of the Arab Investment Co. in Riyadh, recently observed that the absence of savings and loan institutions or mortgage banks stands in sharp contrast to the high number of ongoing construction and real estate projects. More important, he said, there is a marked absence of merchant or investment banking institutions "of the type that built America." Thus the relatively small investor must continue to content himself "with the dull returns of fixed deposits that do not keep him ahead of the inflation game."

Development

This nonproliferation of banking institutions inside the country must be seen in light of the intensive development on other fronts. Had SAMA allowed it, the pressure of the rush of offshore banks to establish themselves in the early part of the current (1975-1980) $142-billion development plan would have increased the strain on SAMA's own resources as well as on the scarce local manpower and on Jiddah, the business and financial center, which was already troubled with airport and seaport bottlenecks and dizzying inflation.

While very much business has been lost to the money changers of the souks and the offshore banking units of Bahrain (a de facto extension of the Saudi banking system), SAMA's strict regulations have allowed local banking and finance to develop at a measured pace.

Today, the process of "Saudiization" — the transformation of foreign banks into joint stock companies 60-percent owned by Saudi interests — is almost complete. The Banque du Caire agreement is waiting only for a royal decree and negotiations to be finished with the last holdouts, Citibank and the Arab Bank (Jordan). The British Bank of the Middle East became the Al Bank Al Saudi Al Britani last year, Banque de l'Indochine et de Suez became Al Bank Al Saudi Al Franci the year before, the Algemene Bank Nederland was changed to the Al Bank Al Saudi Al Hollandi in 1976 and the National Bank of Pakistan has been the Al-Jazira Bank since 1975

"Saudi-ization" has given SAMA even more control over banks and increased prestige through Saudi participation, but more importantly it has allowed the banks themselves to increase their capital base and to open branches throughout the kingdom. In 1978, the number of branches more than doubled from the previous year to about 110. Deposits in all banks stood at 35.65 billion riyals by midyear. In its annual report, SAMA noted that commercial banks provided the means of payment for 25.07 billion riyals worth of imports bought by the private sector.

'Bankmobiles'

Bankers say the future holds an extension of the banking system to all parts of the kingdom — perhaps with traveling "bankmobiles" reaching its remote corners. While banking was once considered the kind of service job few Saudis would take, increasingly widespread education combined with the expertise available from the foreign professional staffs may encourage the growth of an indigenous banking cadre.

Local attitudes, too, are progressively catching up with needs. Until only a couple of years ago, for instance, application forms for even small loans were still incredibly complicated and prying, a remnant of the days when Saudis lived off hajj revenues and taking out a loan was a mark of business failure or bad money management. Today, this has changed. Saudis are accepting the fact of interest on loans as well when it was termed "financing fee" or a "just share of the profits."

Less certain than the growth of domestic banking is the state of the internationalization of the riyal. By denominating contracts for giant development projects in Saudi riyals and by restricting local lending while requiring bid, performance and advance payment guarantees for as much as 25 percent, the government itself appears to have assured the internationalization of its currency.

Loans

Thus, by mid-1977, Bahrain's OBUs were booming and foreign contractors in Saudi Arabia had breathed a sigh of relief in the midst of a limited domestic system.

"We were pleased to find someone who could form a syndicated loan for us with experts only 10 minutes away," says Mohammed S. Huque, manager of treasury opera-

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'I Worry About Lebanon, Not About the Lebanese'

Emerging from the throes of a recent civil war and bracing itself for the efforts of reconstruction and development in the context of a hoped-for reconciliation, Lebanon has an opportunity to redress past failures while maintaining those elements of its system that have contributed to economic and financial success.

In an interview with Errol G. Rampersad of the International Herald Tribune, Premier Salim al-Hoss charts the course that the Lebanese economy has been taking.

At the level of economic policy, there is no reason to assume that Lebanon is not capable of meeting the economic challenges unless one were to postulate that the country will not come to grips with its political problems. But short of this, on the likely assumption that Lebanon will achieve national political reconciliation, the prospects for economic and financial recovery and the further development of Beirut as a financial center loom very high indeed. The economic record achieved under the extreme conditions of the past four years attests to this conclusion.

BEIRUT (IHT) — "I worry about Lebanon, but I do not worry about the Lebanese."

The statement by Mr. Hoss reflects a strong conviction that Lebanese — Moslems and Christians, at home and abroad — would survive the ravages of war afflicting the nation's economy.

Mr. Hoss and his cabinet resigned on May 16. The move had been expected to allow formation of a broadly based government of politicians to set up a national unity coalition.

The resignation of the economic and administrative specialists, who had been in office for 2½ years, came less than four hours after President Elias Sarkis, accompanied by Premier Hoss, met in Damascus with Syrian President Hafez al-Assad.

Free Enterprise

The Hoss government had been in power longer than any other in Lebanon's post-World-War II history.

Because of Lebanon's tradition of a free-enterprise economy, the government has been reluctant to impose price ceilings. Premier Hoss has refused to order increases in the minimum wage while warning that inflation will worsen.

Asked about the shift away from Beirut as a financial center, Mr. Hoss pointed out that there has been a healthy revival among both domestic and foreign banks despite the "crisis" state of the country.

The flow of capital is starting to regain momentum, he noted, boosted by substantial remittances from Lebanese expatriates, many of whom are scattered in the Gulf area.

Mr. Hoss also stressed the dual fact that reserves were at a significant level and that the country was not in debt. He hastened to add, however, that the war had taken it toll on the tourist industry as well as depressing exports.

Perserverance

The question of Beirut's yielding its predominance as a free banking center to Bahrain, or even Amman, was readily dismissed by Mr. Hoss as "only a temporary situation." He felt that investors were not altogether pessimistic about the economy recovering, citing the example of two foreign banks that reopened their branches despite the prevailing atmosphere.

Many businesses have been prospering, he said, because of the perserverance of the Lebanese "business acumen." A number of local bankers, he felt, had taken "the economic bull by the horns" and have started to generate capital for investments.

On the climate for foreign investment, Mr. Hoss felt that the situation has been improving somewhat, although overseas investors still appear reluctant to commit themselves heavily.

The war, he asserted, had hurt the Lebanese pound considerably. Nevertheless, banking has survived and secrecy regulations have been kept intact, he said, adding that the status quo of the banking free zone has always been maintained.

Salvation

The people of a united Lebanon, Mr. Hoss reiterated, will be "the salvation of the land," not only politically but economically.

The premier, who headed the Industrial Development Bank when the war broke out, has been the guiding hand behind the country's economic policies. He enjoys immense popularity as a moderate appealing to all factions.

He is a member of the Sunni Moslem sect, like all Lebanese premiers under the unwritten "national covenant" that distributes top jobs by religion.

In reply to the question of his return to head the government again, Mr. Hoss did not rule out the possibility of doing so. "At this moment I have not made a final decision," he said. "However, in the event that I am drafted, I shall have to give the matter very serious thought."

At the level of economic policy, there is no reason to assume that Lebanon is not capable of meeting the economic challenges unless one were to postulate that the country will not come to grips with its political problems. But short of this, on the likely assumption that Lebanon will achieve national political reconciliation, the prospects for economic and finacnaiel recovery and the further development of Beirut as a fincial center loom very high indeed. The economic record achieved under the extreme conditions of the past four years attests to this conclusion.

Salim al-Hoss, Lebanese premier

Of course, the problem of inflation exits in many countries and is not simply a Lebanese one. Nonetheless, this does not lessen the importance of attempting to re-establish relative stability if the development of Beirut as a financial center is to succeed. This task will become at least partly easier with the restoration of full political stability and the consequent resumption of normal transportation and commercial activities

Jordan: Paving New Avenues for Financial Development

By Patrick Blum

In 1979, more bond issues will be floated on the stock exchange; two new investment companies are expected to be set up; and the government will give a further impetus for the establishment of offshore banks. Bond and treasury bill issues will at least match 1978's total of about 15 million dinars and could reach 20 million. Trading on the stock exchange has given an extra boost to the financial market, and the recent addition of government and corporate bonds should increase trading by about 30 percent.

AMMAN (IHT) — The economic and *financial stability of* the last few years have been reflected in the rapid expansion of *Jordan's financial* sector. *In January*, 1978, trading began on the Amman Financial Market (stock exchange), and, during the year, the first syndicated loans and certificates of deposit in dinars were issued. In 1979, the government plans to establish new financial instruments and institutions, and proposals are being prepared for the development of offshore banking.

The financial sector's expansion is expected to continue in 1979, although more with an *increase* in its range of activities than in a greater number of institutions. Officials in Amman feel that there are enough commercial banks, and it is unlikely that more will be granted permits to operate in Jordan. The Central Bank governor, Mohammed Said Nabulsi, *said that the bank had* been instructed by its board of governors not to issue any more permits. Offshore *banks* and investment companies are exempt from this ruling.

For 1979, a number of activities are planned: More bond issues will be floated on the stock exchange; two new investment companies are expected to be set up; and the government *will give a further impetus* for the establishment of offshore banks. Bond and treasury bill issues will at least match 1978's total of about 15 million dinars ($50.5 million) and could reach 20 million. The Central Bank issued development bonds worth 5 million dinars *in March and another issue of more* than 5 million will be made during the third quarter, Mr. Nabulsi said. The rest will be in treasury bills.

Boost

Trading on the stock exchange has given an extra boost to the financial market. With $17.5 million in shares traded in 1978, the volume of *transactions is still relatively* small. But the recent addition of government and corporate bonds should increase trading by about 30 percent in 1979. To encourage investors, the government decided last January to grant the same tax exemption on private industrial bonds as on government bonds.

The development of offshore banking will offer opportunities for institutions specializing in foreign-exchange dealing. A law has already been passed setting the terms for local and foreign investment in free-zone areas, and the Central Bank has drafted regulations on establishing offshore banks, especially *in the free zone*.

The offshore banks will be similar to those in other countries, although they *will* have to pay a license fee and they will not be completely tax free. This could prove to be a disincentive for banks. In Bahrain, for example, offshore banks are totally free *from* taxation, and in Tunisia — which recently expanded its offshore market — *there is no income tax on* interest revenues earned from loans and deposits and no license fee for the first 10 years of operations.

Functions

Mr. Nabulsi still thinks there are opportunities for banks that want to establish offshore offices. To encourage them, the Central Bank will propose that they are taxed differently and more favorably than commercial banks.

Perhaps one of the most important developments this year will be the establishment of new investment companies. Representatives of the Central Bank, the Amman Financial Market and the World Bank affiliate, the International Finance Corp., are deep into discussions *on setting up an investment* firm to start operations before the end of the year. A draft charter has been prepared, and the Central Bank is readying a prospectus for local investors and potential partners. "We hope to get a foreign participation," Mr. Nabulsi said. "*We have one or two possibilities*, and we will negotiate these things very soon."

The new company will be able to carry out similar functions to those of commercial banks, such as providing venture capital, but it will deal mainly in securities and syndicated loans, with a special emphasis on underwriting local bond *issues. Its capital has not yet been* agreed upon, but it should range between 1 million and 2 million dinars. It will be provided by various sources, including the IFC, possibly the Central Bank and some insurance companies, the Pension Fund, commercial banks *and private interests*.

Another investment company would result from a change in the status of the Pension Fund, which makes payments to pensioners but also participates in development projects and encourages joint ventures between Jordanian and foreign investors. *The fund's managing* director said that approval for the change was expected later this year. *This will* make it possible for the company "to act like a proper merchant bank with a special emphasis on long-term investment and the promotion of new projects," he said. "Our *resources* will be increased, and as a result we can be more instrumental towards the development of our country."

Other banks, such as the Housing Bank and the Industrial Development Bank, have *provided* financing for development projects. The IDB, in particular, has been *mainly responsible for lending for* industrial projects. In 1978, it approved 54 loans totaling more than 5 million dinars, and it is expected to increase the amount this year.

Two new banks, the Jordan Islamic bank and the Arab Finance Corp. (Jordan), part of the Beirut-based Arab Finance Group, will issue special income bonds designed to avoid Moslem bans on usury and interest. The bonds, which will help to finance the construction of the Amman commercial center, will pay no interest but will provide bond holders with a percentage of the profits from the project.

Projects

By using these resources, Jordan hopes to be able to provide more credit to finance development projects. Several local syndications are planned and legislation has been passed to facilitate investment this year and to generate a high level of economic activity. "We are now particularly interested in creating financial intermediaries which would be instrumental in bringing *together savers and investors*," Mr. Nabulsi said. "That is why we have recently used the added facilities and resources of commercial banks and of the new financial institutions to provide more credit."

Because Jordan's capital market is still relatively small, future prospects will depend very much on the availability of funds from abroad. The Central Bank is now considering *scrapping* currency controls. They were liberalized in May of last year so that commercial banks *no longer need the* Central Bank's permission to provide foreign exchange, although the banks still must get a *license from* the Industry and Trade Ministry or a letter of credit from abroad.

All of these measures are expected to boost the capital market and take Jordan one step nearer to its goal of becoming a regional trade and financial center. Much will depend on long-term economic and political developments in the region, but for the immediate *future, officials remain* optimistic and look to ways of increasing Arab economic cooperation.

The successes of *last year have* given Jordan more confidence. "I look forward to a much more active capital market in Jordan," Mr. Nabulsi said, "and I think that the level of economic activity in 1979 will benefit a great deal from the resources in the local market."

Algeria: Euromarket Lending Boosts Gas Industry

By Margaret Greenhalgh

ALGIERS (IHT) — The *ease* with which Algeria borrowed on the Euromarket last year was to some extent inevitable. The country had a justifiable need for the money at a time when the international banks, faced with unprecedented liquidity, were searching eagerly for *borrowers*. Nevertheless, Algeria would not have been able to borrow such a large amount, on terms considerably better than it had obtained a year earlier, if the lenders had not had some confidence in its ability to repay.

Algeria borrowed about $4 billion last year, about *$3 billion of it* in Euroloans and the remainder in export credits. This brought its external debt to about $16 billion, which is high but not as daunting as it seems when one considers that about half of it is in export credits obtained on softer terms than the Euromarket portion.

Last year's borrowing was unusually high, even for Algeria, which has a history of heavy borrowing. But it was not entirely unexpected. The country *may* have taken advantage of the favorable market to anticipate some of its financial requirements, but most of the borrowing was planned well in advance. The report on Algeria's hydrocarbon development plan, prepared for the state oil and gas company, Sonatrach, by Bechtel of the United States and published early last year, shows that Algeria's financial strategists had planned for Sonatrach's borrowing to be heaviest from 1978-80, after which it will borrow less and earn more.

The report says that Sonatrach will invest about $33 billion in the period *1976-2000*, of which $22 billion will be for the gas industry, the remainder for oil. About $17.4 billion worth of foreign finance will be required. Most important, it shows that Sonatrach's projected earnings from oil and gas sales in that time will far exceed its foreign debt.

This information and the opening in February, 1978, of Arzew 1, the first new natural gas liquefaction plant at Arzew, did much to encourage the banks' favorable disposition towards Algeria. Arzew 1 is now supplying liquefied natural gas to the United States, giving Sonatrach's creditors their first glimpse of the tangible results of their lending.

Most of the financing raised last *year was for the gas industry*. There were three *major* packages, all of which included export credits. One, for the second LNG plant at Arzew, consisted of a $218-million Euroloan, to which was added later a $240-million credit from the U.S. Export-Import Bank and a small Euroloan of $32 million.

Another was a $210-*million* loan for the Algeria-Italy natural gas pipeline, for which the Italian government also provided $550 million worth of credit.

The third, worth $667 million, was raised to cover development of the Rhourde Nouss gas field by Canadian Bechtel. It comprised a $142-million Euroloan guaranteed by Canada's Export Development Corporation, *$275 million* provided entirely by the EDC and a $250-million straight Euroloan.

Almost all the Euromarket portions of these packages were raised at an interest of 1⅜ percent above the London interbank offered rate (Libor) for seven years, a substantial *improvement* on the average of 1⅜ percent above Libor for five years that Algeria was getting in 1977. Spreads on smaller loans for Sonatrach fell even below 1⅜ percent last year, but the banks managed to resist cutting the margins until early in 1979.

It was thought the banks might show some reluctance to lend if the rate became too low because one of Algeria's attractions as a borrower was that it still paid more than most developing countries. But it has proved impossible to hold the rate. The last major loan for Sonatrach — $400 million signed in March — was at 1¼ percent above Libor for 10 years.

Borrowers

Other Algerian borrowers, such as the state steel, construction materials and textiles industries, tended to obtain the same rates as Sonatrach last year, but the Banque Nationale d'Algerie did better. It raised a *seven-year* loan of $120 million in July at a split rate of 1¼ percent above the six-month Libor for the first three years, then at 1⅜ percent above the six-month rate. In November, it obtained $125 million, again at a split rate, of 1 percent above Libor for three years, *followed by 1¼ percent above* Libor for the remaining four.

Bankers seem divided over whether there should be one rate for Algeria, since the money to repay the loans will be earned mainly by one company (Sonatrach) or whether there should be a different rate *for* each borrowing entity.

In spite of the favorable market, Algeria's financial managers have been careful not to let the borrowing become indiscriminate. *Loans* have been raised in different currencies — Kuwaiti dinar, yen and Deutsche marks — not only to spread the risk but also to give Algeria a toehold in different markets that it may need to develop later. Money has also been raised by issuing *bonds and floating-rate notes*. The bonds have been in Bahraini dinars, Swiss francs and yen, and the floating-rate notes — for Sonatrach, the Banque Exterieure d'Algerie, the BNA and Credit Populaire d'Algerie — have been in dollars and Swiss francs. The amounts *raised through such issues* are small, but they have given Algeria access to another source of funds. Investment banks are now more aware of Algeria.

Needs

Algeria's planners have also aimed to stagger the borrowing so that repayments do not all come at once. They have tried, particularly, to obtain longer grace periods. In this respect, the ample provision of export credits — about $500 million last year from the U.S. Eximbank — has helped. *Even so, the* debt-service ratio is expected to rise to 24 percent in 1982, compared with about 18 percent in 1977 and *20 percent* in 1978.

How easy it will continue to be for Algeria to raise money still depends partly on how much it needs this year. If it comes to the market for large amounts, it may meet opposition from some of the big U.S. and French banks that have been *lending to* Algeria for a long time and are nearing their loan ceilings for Algeria. The problem is particularly tricky for U.S. banks, which by law may lend only a certain percentage of their capital to a single borrower.

The most urgently required financing — *for the third natural gas* liquefaction plant, Arzew 3 — is already almost settled. It includes the $400 million signed earlier this year, the Coface credit to which that loan is linked and $250 million to be provided by Dutch and West German banks. Financing for another *LNG plant, Skikda-East*, may be under negotiation by the end of the year, but until then, no other major loans are expected. Instead, there could be a series of smaller loans, especially for light industry and agriculture, that are likely to be given more attention in the next *economic development plan, to be* introduced this year.

هكذا من الاهل

بنك

Assessing the Facts and Figures of Lebanon's Economy

By Nassim Saliba

Services continue to be the backbone of the economy despite the steady growth of the industrial sector, which now constitutes 19 percent of the gross national product.

Assessments of the economic achievements of 1977 and the backslide of 1978 are difficult. . . but figures released by the Beirut Chamber of Commerce and Industry indicate that industrial exports have steadily increased during 1977 and the first half of 1978. Such exports amounted to 2.6 billion pounds during 1977 and 1.2 billion pounds for the first half of 1978, a 33-percent increase over the first half of 1977. However, industrial exports for 1978 totaled only 1.93 billion Lebanese pounds.

BEIRUT (IHT) — Services continue to be the backbone of the Lebanese economy despite the steady growth of the industrial sector, which now constitutes 19 percent of the gross national product. Such an economic structure obviously adds to the difficulties of recovering from the shattering two-year war. However, with the relative improvement in the security situation since 1976, the Lebanese economy started showing signs of recovery, suggesting the possibility of a new Lebanese "miracle."

Unfortunately, such signs were all but aborted in the wake of the many setbacks, starting in February, 1978, and continuing through the Israeli invasion of the following month and the heavy fighting during that summer. The resulting anxieties and uncertainties were obviously of little help to a faltering economy.

Difficulties in assessing the economic achievements of 1977 and the backslide of 1978 are not to be underestimated, particularly in view of the fact that reliable statistics are lacking. Some indicators and figures, however, can be put together to help understand economic and monetary trends of these two years.

Figures released by the Beirut Chamber of Commerce and Industry indicate that industrial exports have steadily increased during 1977 and the first half of 1978. Such exports amounted to 2.6 billion pounds ($812 million) during 1977 and 1.2 billion pounds for the first half of 1978, a 33-percent increase over the first half of 1977. But industrial exports for 1978 totaled only 1.93 billion Lebanese pounds (8.5 percent below the 1977 level).

Developments

Other figures and indicators also seem to support the above conclusion. Duties collected in 1978 amounted to 509 billion pounds compared to 480 billion Lebanese pounds for 1977 (a 6-percent increase), although the projected figure for 1978 was 700 billion pounds. In 1977, departing airport passengers outnumbered arriving passengers by 11,000 whereas this figure rose to 83,000 in 1978. Obviously, the explanation has to be sought in the increasing number of emigrants following deterioration of the security situation. The real estate sector was also subject to some of the same influences: The number of real estate permits issued during 1978 was 1.900 compared to 2,832 for 1977 (a 23-percent drop).

The Lebanese banking sector was apparently the least affected by the 1975-76 troubles. Several factors contributed to this:

- Many Lebanese businessmen relocated abroad and re-opened their businesses, regaining their solvency and ability to meet obligations to Lebanese banks.
- The dramatic increase in real estate prices offered banks security for loans given against real estate guarantees.
- Many laws enacted during 1977 offered banks the opportunity of a tax break on 1975 and 1976 gains and considerable flexibility in handling loans.

Available statistics for 1977 indicate that following the relative improvement in the security position, banks were able to attract deposits exceeding the level of 1976 by a record rate of 42 percent for a total of more than 12 billion pounds. While most of the increase in absolute terms was in savings and time deposits denominated in pounds, deposits of residents in foreign currencies reflected the highest rate of growth (46 percent). This could be attributed to the uncertainties related to the exchange rate of the pound during most of the earlier part of 1977.

Some of the main reasons for the record rise in deposits were the reflow of some of the funds that had left the country during 1975 and 1976, inflow of funds from the increasing number of Lebanese persons who left the country for the Gulf area during the previous two years and the return of a large part of the currency in circulation to banks in the form of deposits as security conditions improved. Moreover, the extension of the branch network of the Lebanese banking system to the suburbs of Beirut, following the destruction of the business center, helped in the growth of deposits. Branches increased from 227 in 1974 to 365 by the end of 1977.

Growth in Resources

The spectacular growth in banks' resources was not accompanied by any significant increase in loans and advances to the private sector. While banks followed a wait-and-see policy with respect to lending, demand for loans also was not that strong. In contrast, banks increased their foreign investments by a significant margin and at the same time reduced their foreign liabilities as well as their borrowings from the Central Bank.

As a result of the growth in banks' resources and their restrictive lending policy, their liquidity recorded a major improvement. This development permitted banks to invest in short-term Lebanese Treasury bills to the amount of 465 million pounds. Bank liquidity improved in terms of pounds from 13.6 percent by the end of 1976 to about 24 percent by the end of 1977, or to the same level as 1974 (including investments in Treasury bills). Overall liquidity (including net foreign assets) improved from about 31 percent at end of 1976 to 45.4 percent by the end of 1977.

Monetary statistics for 1978 indicate that deposits with banks continued to grow during that year, although at a reduced rate of 18.6 percent. This increase was reflected in the growth in resident deposits in pounds. Resident deposits in foreign currencies showed almost no change.

The reduced rate of growth in bank deposits could be largely attributable to the slower inflow of funds and acceleration of outflow of capital as a result of both deterioration in the security conditions and the measures of President Carter to prop up the dollar. The latter led to a large differential between the interest rates paid on pound deposits and those paid on the dollar and contributed at the same time to a depreciation in the exchange rate of the pound. Moreover, the desire of the public to hold larger amounts of banknotes for emergency purposes, following the deterioration in the security conditions between last July and October, contributed to the slowdown in the growth of deposits.

Slower Inflow

In contrast to 1977 and despite the continued slack in the overall economic activity, bank loans and advances to the private sector rose by 23.5 percent, almost exceeding the rate of growth during the normal year of 1974. In addition, banks subscribed to additional Treasury bills. It is believed that a good part of the increase in loans and advances was used to finance speculation in land and real estate and toward the end of the year in foreign currencies, mainly the dollar. This trend in lending continued during the first two months of the current year, prompting the Central Bank to take measures to arrest the growth in bank lending for speculative purposes and consequently to improve or contain the depreciation of the exchange rate of the pound.

Liquidity

For the Central Bank and the commercial banks, the volume of overall liquidity (money and quasi-money) grew by 27.7 percent in 1977 compared with 5 percent in 1976. Most of this increase in liquidity was reflected in quasi-money, which rose by 45.7 percent. The major improvement in the balance of payments, as reflected in the movement in net foreign assets of the banking system, was the principal factor contributing to the growth in overall liquidity.

In 1978, overall liquidity rose by about 19 percent. In contrast with 1977, changes in net foreign assets (or balance-of-payment development) had little to do with this increase that was mostly influenced by the rapid rise in domestic credit (17 percent), about a third of which represented credit to the public sector.

In view of the lack of information on national accounts and on domestic price movements since 1974, it would be difficult to determine accurately whether there is excess liquidity in the economy. However, it could be concluded that on the basis of unofficial price indices and considering that economic activity has remained significantly below the 1974 level, the creation of liquidity in the economy during the period 1975-78 had been in excess of the rise in real output and the increase in prices.

From this stems the need for absorbing the excess liquidity with a view to restoring internal equilibrium that could help contain the rapid rise in prices and contribute to the maintenance of the strength of the balance of payments and eventually in the exchange rate of the pound.

Balance of Payments

The movements in the net foreign assets of the banking system show that in 1976, after the recording of an overall deficit of about $225 million for the first time in many years, in 1977 the balance of payments resulted in a record overall surplus totaling $700 million. Of this total $500 million reflected an increase in the net foreign assets of the commercial banks and the balance in the net foreign reserves of the Central Bank. These reserves totaled the equivalent of about $2 billion at the end of 1977.

The realization of the overall surplus in 1977 could be attributed to the resumption of Lebanese export trade, earned income on the foreign assets of the Central Bank and the commercial banks, but mostly to the inflow of capital, mainly from Lebanese working abroad.

The movement of the net foreign assets of the banking system shows that for 1978 the overall surplus of the balance of payments declined to about $215 million, representing wholly earned income on Central Bank's foreign assets. In contrast, net foreign assets of the commercial banks recorded a small decline.

This reduction in the overall balance of payments was largely the result of the deterioration of the political and security conditions during most of the second half of 1978 and the rise in the interest rate on dollar deposits. Both developments encouraged the net outflow of capital.

Exchange Rate

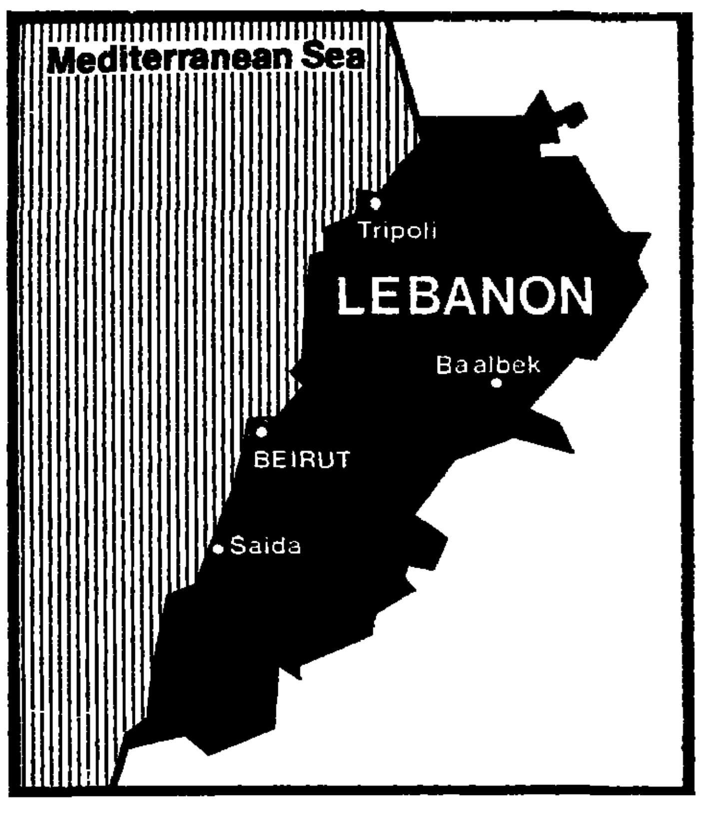
Following an improvement in the exchange rate of the pound in the last quarter of 1976 (from 3.30 to 2.93 pounds to the dollar), the pound deteriorated during the first nine months of 1977 vis-a-vis most major currencies. This development may be partly associated with the weakening of confidence in a rapid political reconciliation. However, with the rapid improvement in the balance of payments during the last quarter of 1977, the exchange rate of the pound picked up strength, moving from 3.10 to 3 pounds to the dollar. In fact, had it not been for the intervention of the Central Bank, this improvement would have been more significant.

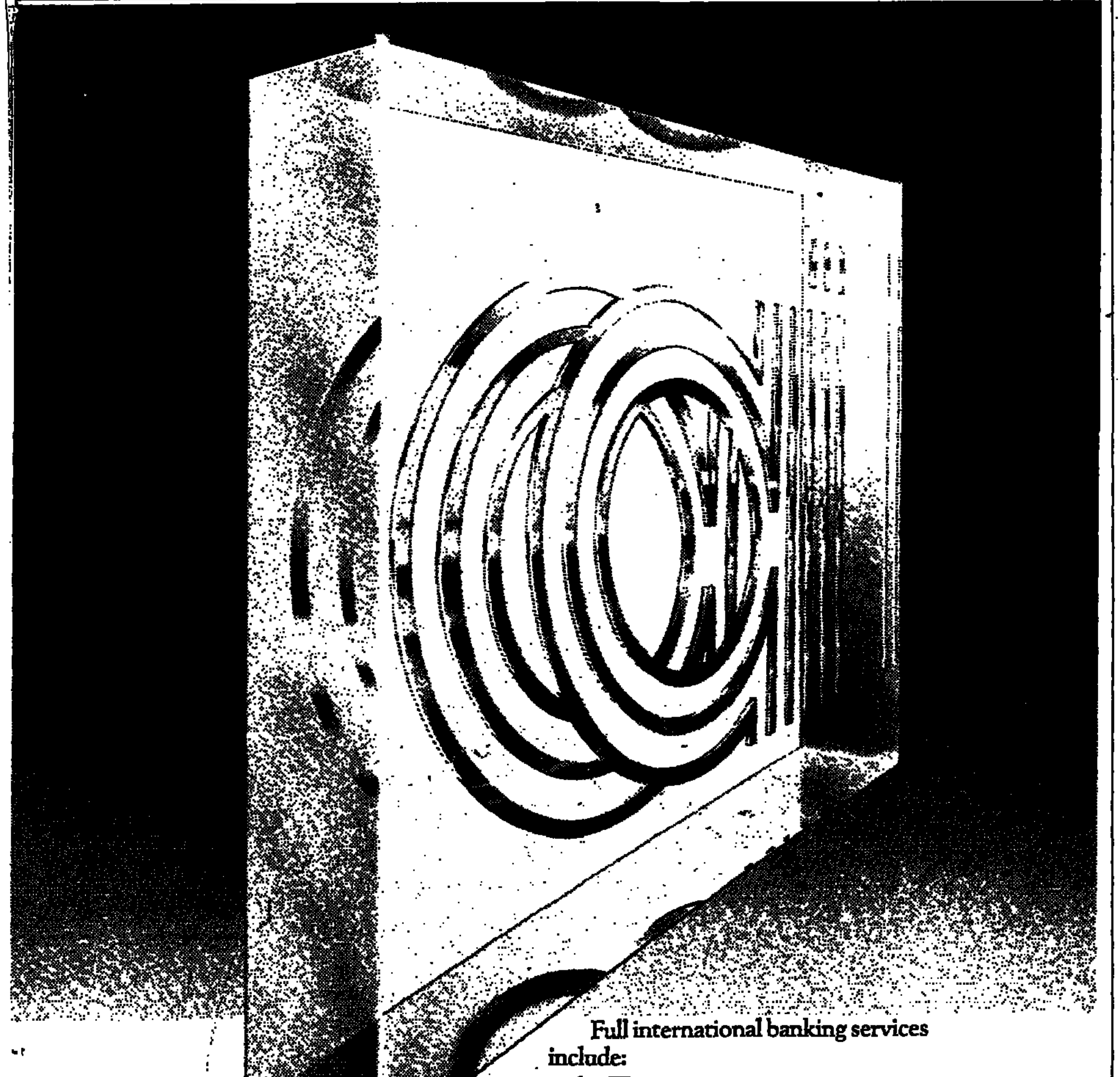
The rate of the pound continued to improve during the first half of 1978 against the dollar and other major currencies. By the end of June 1978, the rate was 2.89 pounds to the dollar. However, with the deterioration of security conditions beginning in July, 1978, the pound began to retreat, particularly toward the latter part of the year, following President Carter's measure to strengthen the dollar. This trend continued throughout February, 1979, and was reinforced by speculative financing by the banking system.

On Feb. 24, 1979, the Central Bank took a number of measures to arrest speculation against the pound and reverse its deteriorating trend. These consisted mainly of the imposition of a reserve requirement of 5 percent (raised to 10 percent in April) on all deposits denominated in pounds and additional reserve requirement of 40 percent on credits guaranteed by foreign deposits, except credits to finance foreign trade. Reserve requirements of 15 percent are also imposed on foreign deposits given as guarantees for the above credits.

With the announcement of these measures, the exchange rate of the pound showed an immediate and significant improvement. However, since April, the rate of the pound has been again under pressure, reflecting the continued improvement of the exchange rate of the dollar against most major currencies and also the sudden deterioration in security conditions (mainly in the southern part of the country). On May 10, 1979, the rate of the pound was 3.24 to the dollar.

Based on a basket of currencies, the average trade-weighted effective exchange rate of the pound fell by 31.8 percent during the period 1975-1978. Taking the end of 1977 as a base, the effective rate of the pound fell by only 1.7 percent during 1978.





بنك

Amman Rapidly Establishing Itself as Key Capital Market

By Errol G. Rampersad

The banking and financial structure in Jordan has come a long way since 1954, when Jordan restructured its financial institutions. While the number of commercial banks in that year was only four, in 1976 it reached 15 with more than 81 branches; and while money supply barely exceeded 20 million Jordanian dinars (about $60 million) it is now more than 250 million dinars. Moreover, financial instruments. . . have varied to include a wide spectrum of papers consisting of public debt instruments, shares and commercial and financial papers that vary in maturity, value and interest.

AMMAN (IHT) — *Economic* theorists have stated that the level of banking and financial activities in a country depends on its economic performance. The higher per capita income is, the more advanced and diversified its economic *structure* will be. The *progress that* is achieved by the banking and financial sector of a given country is measured by the degree of liquidity, the number and diversity of institutions and the diversification of its monetary and financial instru*ments.*

The banking and financial structure in Jordan has come a long way since 1954, when Jordan restructured its financial institutions. While the number of commercial banks in that year was only four, in 1976 it reached 15 with more than 81 branches; and while money supply barely exceeded 20 *million* Jordanian dinars (about $60 million) it is now *more* than 250 million dinars. Moreover, financial instruments were limited to bank promissory notes and acceptances, which have varied to include a wide spectrum of papers consisting of public debt instruments, shares and com*mercial* and *financial* papers *that* vary in maturity, value and interest.

This growth was basically engendered by the growth in the economy as a whole. Moreover, the trading monetary institution, the Central Bank, has judiciously played its role as a catalyst in this development.

Not too long ago, the suggestion that Amman could rival Beirut as a *financial center would have been* readily dismissed. But today, the capital of the Hashemite Kingdom of Jordan is moving ahead rapidly to establish itself as a key capital market.

Expanding Role

"The financial sector in general *and the banking sector in particular* is expanding its role in the economy of Jordan and emerging as being the leading sector in the economy," says Mohammad Said Nabulsi, governor of the Central Bank of Jordan. "The sector is also expanding its original rôle to a point where we hope that Jordanian financial expertise and know-how shall occupy a focal point in the overall development of Middle East financing."

Although less-developed countries find monetary instruments unwieldy, experiences reveal in Jordan a success story wherein monetary aggregates have been disciplined to serve the general development objectives.

The liberal economic and monetary *policy in Jordan permitting* the relatively free flow of capital has given it a unique position and made it more attractive for foreign investment, and various new financial institutions have applied to participate in the Jordan development *efforts. On the home front*, the central bank is meeting the challenge of developing a viable domestic banking system and is seeing to it that Jordan does not become "overbanked." However, it should not be understood that there is an actual moratorium on the establishment of new banks in Jordan. Applica*tions for merchant banks*, investment banks and institutions of a similar nature that help mobilize domestic savings are being encouraged.

As for development, this may be indirectly financed through the encouragement of credit to certain sectors of the economy. Qualitative — *as distinct from quantitative* — control of credit is given priority by the Central Bank to ensure the direction of funds to areas of high priority in the development process and to counteract the institutional bias in favor of commerce and trade financing.

The outstanding development achievements in Jordan prior to 1967 and the revival of the Jordan economy after the 1976 war could never have materialized had Jordan *not adopted an economic policy* suitable to the encouragement of investment in which private initiative and economic freedom are the main cornerstones. This also could never have happened had Jordan not created the relevant economic and political atmospheres for such takeoff. This situation was also supported by a liberal foreign exchange and payments policy since the establishment of the Kingdom.

The current five-year plan (1976-1980) *centers on* the adoption of a set of policies and measures related to investments and sources of finance, together with organizational measures, that aim at improving economic efficiency. Consequently, the plan is not merely a group of projects singled out for implementation; it is also a blueprint for creating a basic and suitable framework, modernizing and improving *the performance* of the government system, providing a suitable climate for the private sector, emphasizing manpower training and adopting suitable economic policies to augment the absorptive capacity of the national economy.

A most important means of achieving the goals of the plan is to invest in the various economic sectors and projects of higher rates than those of previous years. Fixed investments during the plan period *are estimated at 765 million dinars*, of which 382 million will represent investments by the public sector and 383 million by the private sector. Thus, fixed investments to gross domestic product will increase from 32 percent in the pre-plan preceding three years to 36.4 percent in the five-year plan period.

According to the plan, the productive sectors are agriculture, mining and *manufacturing, construc*tion and electricity and water supply. It envisages an overall growth rate in productive sectors of 161.8 percent during the plan period, or an annual growth rate of 21.1 percent. The annual growth rate for each of *the productive sectors* is different from the other, ranging from 26.2 percent for mining and manufacturing and 17.1 percent for the electricity and water supply sector to 7 percent and 4.1 percent for agriculture and construction respectively.

Offshore Possibilities

Amman's possibilities as a center for offshore banking are growing, and the Arab world surpluses are, if not openly courted, at least being eyed. "We are very eager to intensi*fy regional financial cooperation* and be instrumental in cementing *Arab capital markets* and in integrating a structure that should facilitate the movement and utilization of financial resources in the area itself," says the Central Bank governor. And on investment motivation in Jordan, Nijmeddin *Dajani, Minister of Trade and In*dustry and former ambassador to the European Economic Community, says:

"Jordan forms a natural bridge between the industrial Western nations and the wealthy oil-producing *countries. We wish to make use of* this unique advantage to the fullest extent."

Liberal investment laws and incentives have been introduced both to encourage foreign companies and to develop a solid industrial base. *With its central location* between the advanced countries of *East and West* on the one hand, and its proximity to the oil-producing countries of the area with a huge consumer and buying power on the other, the opportunity for transit trade and maintenance services to the whole area is vast. A *promising technological base, with* its diverse manpower capabilities and attempts to continuously improve infrastructure and facilities, should help Jordan play a vital role in the whole region, or in the words of Crown Prince Hassan: "A challenging role based on conviction and bonds of friendship."

Oman: Attracting Attention of International Bankers

By John Whelan

MUSCAT (IHT) — *Oman is* becoming a good name again in world financial markets as bankers look at the lending chances posed by a $450-million southern oil fields development program.

The *market* has received particularly well a government borrowing proposal for $200 million during seven years at 6 percent above the London interbank offered rate, which gives Oman a credit worthiness close to that of Bahrain. The loan is being managed by the Abu Dhabi Investment Co., the *Bahrain-based Gulf International* Bank and the Union de Banques *Arabes et Francaises group of Par*is. Financial adviser to the government is Morgan Grenfell and Co. of London.

It is the first time in several years that Oman has raised international finance. The government's support for the Egypt-Israel peace treaty may affect the participation of Arab banks in the loan, but GIB's role as lead manager is expected to smooth the way. The government *of Oman is a shareholder in the* Gulf International Bank.

The new-felt confidence comes only weeks after the publication of *the 1979* budget showing an unexpected deficit of $312 million, compared with *$144.7 million in 1978.* Higher oil prices will help to bring this deficit nearer to the 1978 level, but the government is already budgeting for less in the way of concessionary loans from Arab aid funds. This trend will be further accentuated by the funds' reaction to Oman's political support for Presi*dent Anwar Sadat.*

Rehabilitation

Yet Oman has not found its procesas financial rehabilitation easy. *The Central Bank of Oman* now claims Oman is a net investor, but between 1974-75 a number of Eurocurrency loans were made at rather high interest rates that reflected bankers' doubts in the ability of the government to control spending. Some of these doubts *have been dispelled with the ending* of the Dhofar rebellion in December, 1975, and a de-escalation of defense spending.

The *prospect of a second chance* from oil has inspired confidence. In 1977, when World Bank officials reported on Oman, the outlook was bleak. Production was slated to drop to less than 200,000 barrels a day by 1981. Now, thanks to a successful program of drilling in the desolate southern Dhofar Province, *it looks as if production will* be up to 350,000 barrels a day in 1981, with the addition of 70,000 barrels a day in extra production. As Bob Jetses, the managing director of Petroleum Development Oman, the country's only producing oil company, puts it: "It is beyond all our wildest expectations."

Oman is not a member of the Organization of Petroleum Exporting Countries or the Arab equivalent, the Organization of Arab Petroleum Exporting Countries, but it *hikes the price of its light* crude whenever other producers in the area increase *prices.* At $17.56 a barrel, Oman's crude oil is among the highest priced in the Gulf.

Production is confined to fields *in the north, but by mid-1980, the* Dhofar fields will come on stream, linked to the north by a 450-kilometer pipeline.

Bank Powers

*Domestically, Oman's 20 li*censed and operating commercial *banks are geared for what is a small* market by Gulf standards. The Omani rial is linked to the dollar, and there is little demand for Omani rials outside Muscat and Salalah. Indeed, the Maria Theresa dollar is still widely used in the interior of the country. Until 1970, Oman's currency requirements were met by the Indian monetary authorities, and the rupee was the *main currency.*

The banking community, whose oldest member is the British Bank *of the Middle East, is supervized by* the Central Bank of Oman. Until 1974, the British Bank of the Middle East acted as the central monetary authority. The Central Bank, whose board of governors chairman is Tarik bin Taimur al-Said, is advised by an American expatriate, Michael Brown, who was recently named deputy chairman.

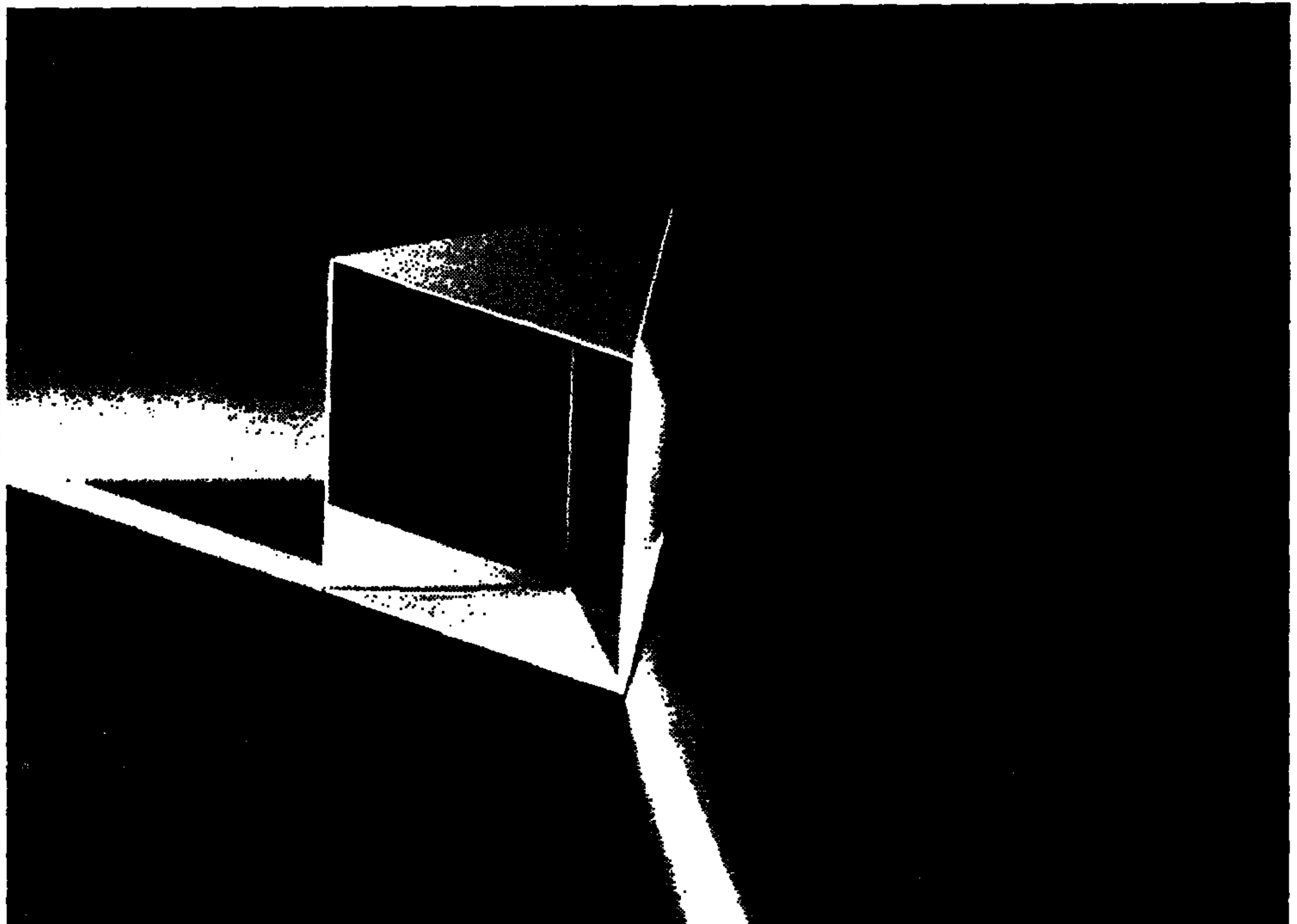
There are six locally incorporated banks in the banking community. The foreign banks include Citibank, Paribas, Grindlays, Brandts and The Chartered Bank from Britain as well as Arab banks such as the National Bank of Abu Dhabi.

The Central Banks' powers have been slow to develop. It has the power to discount export bills on government direct oil sales and to *buy government treasury bills and* securities with a maximum of 10 years. In fact, this has yet to happen. The bank has the power to grant advances to commercial banks and buy, sell, discount and rediscount various types of domestic commercial paper. This year, it *started to offer* a limited swap facility, buying spot dollars and reselling them forward to the banks for periods of between five days and three months. The arrangement enables the licensed banks to get liquidity and protects them against foreign-exchange risks.

Among other developments has been the creation of the Oman Housing Bank, which operates as a building society to enable Omanis to buy their own homes. It is 51-percent owned by the government, with the balance held by the *Kuwait government and the British* Bank of the Middle East. The home loans carry an interest of 10 percent and have a repayment period of up to 20 years.

The need for medium-term to *long-term loans to finance industri*al projects in the private sector is to be met by the Oman Development Bank, whose equity is shared by the government, the Omani public and institutions including the Kuwait Foreign Trading Contracting and Investment Co., the Amman-based Arab Bank, the British Bank of the Middle East, Grindlays and the National Bank of Oman. The bank will stay clear of commercial banking and will handle the medium and long-term requirements of private enterprise for projects in *industry, mining, oil agriculture* and fisheries.

The lack of economic activity outside what is generated by government spending has made the economy dependent on the annual government budget. Until now, the government anticipated continuing the belt-tightening process that began when oil production slipped from a peak of 134 million barrels in 1976 to 123 million barrels in 1977. Bankers now believe that, in *light of the Petroleum Develop*ment Oman forecasts, the balance of payments will move into surplus in the early 1980s. Many of the international contractors who have formed joint ventures or limited liability companies in Oman will look for signs of this oil wealth emerging in the ministerial spending program.



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Syria: Encouraging Foreign Investment to Aid Growth

There has been an increasing trend toward encouraging the role of the private sector and foreign investment. The next few years will show how near the Syrian planners' dream of hundreds of thousands more hectares of irrigated land will be realized and to what extent industrialization projects will be fulfilled. They will also show the role that private and foreign investment may play in Syrian development — a role that could affect the structure and operation of the banking system.

By Susannah Tarbush

DAMASCUS (IHT) — "Syria has white gold, yellow gold and black gold — that is cotton, grain and oil," a Syrian official remarked recently when asked about his country's economic prospects.

"We have great economic potential, and Syria could, for example, regain its historical role as the breadbasket of the area. But, unfortunately, some problems remain."

Among these problems are the constant difficulties created by the Middle East conflict, with the financial drain of keeping the country on a military footing and maintaining its commitment of 30,000 troops in Lebanon. There is also some uncertainty about sources of finance, with the memory of the cutback in aid from the Arab oil states in 1976. Other problems taxing Syrian planners are what shape future development should take and, in particular, how far economic liberalization should be allowed to go.

After the Ba'ath Party came to power in 1963, the state took over the management of most of the economy. There has been an increasing trend, however, since Hafez al-Asad became president in 1970 and particularly since 1973 toward encouraging the role of the private sector and foreign investment. The next few years will show how near the Syrian planners' dream of hundreds of thousands more hectares of irrigated land (the Euphrates Dam project envisages the eventual irrigation of 640,000 hectares) will be realized and to what extent industrialization projects will be fulfilled. They will also show the role that private and foreign investment may play in Syrian development — a role that could affect the structure and operation of the banking system.

The striking contrast between the banking sector in Syria and that of most other Arab states is shown by the mere two pages it takes to outline it in a financial directory of the Middle East. This compares with 21 pages for Egypt, 38 pages for the United Arab Emirates and 38 for Syria's next-door neighbor and close relation, Lebanon.

Close Ties

Syria is one of the few Arab countries (others include Iraq, Algeria, Libya and South Yemen) where all the banks are state-owned. Syrian banks were nationalized in 1963 (or rather renationalized, the nationalizations of July, 1961, were reversed after Syria withdrew from the United Arab Republic in September, 1961).

After nationalization, the banks were regrouped twice before all were finally joined to form the Commercial Bank of Syria at the beginning of 1967. Hand in hand with the creation of one commercial bank went the development of specialized banks to deal with the other main sectors of the economy, as is typical of the banking system in a planned economy.

The specialized banks are the Industrial Bank (established in 1959), the Agricultural Cooperatives Bank (a hangover from the Ottoman days, founded at the end of the last century) and two banks set up in 1966 — the Real Estate Bank and the Popular Credit Bank (which gives loans to small industries, craftsmen and merchants). The only other institution to have bank functions is the Post Office Savings Fund (started in 1963).

The Commercial Bank finances internal and external trade and had a paid-up capital of 182 million Syrian pounds in December, 1976. It is the largest of the banks, whose operations are closely tied to the government's five-year plans. This can determine interest rates for specific loans.

There has been speculation for some time that Syria was considering to allow foreign banks to open branches in its free zones. At present, only the Commercial Bank has branches in the Damascus and Aleppo free zones. The chairman of the Commercial Bank, Dib Abu Assali, confirmed in a recent interview that there should be free-zone branches of foreign banks within a year. They would restrict their lending to financing free-zone projects.

Joint Ventures

The free zones have been set up at Aleppo, Latakia, Tartous, Adra, Damascus and Damascus International Airport as part of measures to attract private-sector and foreign investment. Twenty percent of goods produced may be sold in Syria. There are problems in selecting an industry that will find a market in neighboring countries. One Syrian businessman says: "I was thinking of establishing a brewery in one of the free zones under license to a British firm but found there was market saturation in the area, with Lebanon already exporting lager to Syria."

Another free zone is a joint Syrian-Jordanian one on the two countries' common border that is being set up by the Syrian-Jordanian Free Zone Co. This is part of the move towards closer cooperation between Jordan and Syria that has been under way since 1975. Given the very different economic systems in the two countries, it will be interesting to see what effect these moves have on Syria's economic policies.

The most outstanding recent development in the tightening relationship has been an agreement to set up the Syrian-Jordanian Bank to finance joint projects. The Syrian participants are the Post Office Savings Bank, the Real Estate Bank and the Popular Credit Bank. Capital has been fixed at $6.68 million. Jordanian particiaption has not yet been specified but is said to include private-sector banks such as the Arab Bank.

The Syrian-Jordanian Bank, which is authorized as a commercial bank, will have guaranteed protection from expropriation or nationalization and will be exempt from regulations applying to public companies.

Syria has also been establishing relations that surpass those of mere good neighbors with Iraq. Since their reconciliation last October, Syria and Iraq have been busy mending their fences. A partnership would have many economic ramifications.

One tangible result has been to restore pumping Iraqi oil across Syria, creating a source of badly needed transit dues. The two countries are reportedly also engaged in discussions on setting up a joint bank.

With their new friendship still in its infancy, it remains to be seen what influence Syria and Iraq may bring to bear on one another's economic decision-making.

Sudan: Emphasizing Exchange

By Alan Mackie

KHARTOUM (IHT) — Sudan's critical foreign-exchange ortage impinges on all aspects of e. In Khartoum, the length of the es at gas stations has become almost an indication of the level of e fuel reserves and the arrival of oil tanker at Port Sudan an ocsion for universal relief. Foreign ods are available in the capital t only for those with foreign curncy. Indeed, the situation has beme so critical that the government has preempted any loss of reign exchange through smuging by setting up special shops for reign goods that can be bought ty free with hard currency.

The lack of foreign exchange colrs the banking scene. Exchange ntrols militate against Sudanese with funds abroad bringing their money back into the country; they would never be able to get it out again. And despite last June's devaluation, the Sudanese pound is ill 10-percent overvalued. The arty is maintained by a number of devices that have effectively established an official plus an "encouragement" rate of exchange —an "encouragement rate" that is still overvalued. Instead of devaluing 20 percent last June, the government offers a 20-percent rebate on all foreign-exchange transactions.

This has given the banking sector very little opportunity to develop. Local banks lost much of their zest after nationalization, although the change depended to some extent on whether they were able to retain their original staff. The better banks eventually built some business by cultivating customers with access to foreign exchange, which was used to finance foreign trade. But the Central Bank's periodic raids on the local banks' hard-currency reserves to shore up its own has made planning difficult.

The most prominent Arab banks are the Bank of Credit and Commerce International and the Arab African International Bank. The National Bank of Abu Dhabi and the Faisal Islamic Bank also have offices in Khartoum.

As for foreign banks, a license depends on the investment they bring in. Unlike Egypt, where foreign banks have been allowed to find their feet by financing imports, Sudan has neither the market, the resources nor the economic need for this kind of development. Only a handful of foreign banks, therefore, have been set up in Khartoum. All are offshore operations. Chase Manhattan Bank has an office in Khartoum and Citibank set up there last December. Bank of America is negotiating for entry.

Life has been made even harder for the banking community recently because of the Central Bank's own chronic shortage of foreign exchange. In February, the local banks were required to put together a $36-million loan for the Central Bank from their own foreign-exchange reserves. Citibank and the Bank of Credit and Commerce International also participated. The loan was made at commercial rates.

If their attempts to conserve foreign exchange are thus thwarted, the local banks have no trouble dealing in Sudanese pounds. One benefit from the exchange-control regulations is that Sudanese pounds are in relatively good supply. Any business that does not need foreign exchange to start up or buy raw materials has relatively little difficulty in finding finance.

Because there is so little conventional banking beyond the common domestic retail business and because of Sudan's specialized investment requirements, the burden of investment finance is placed squarely on the specialized banks and other financial institutions.

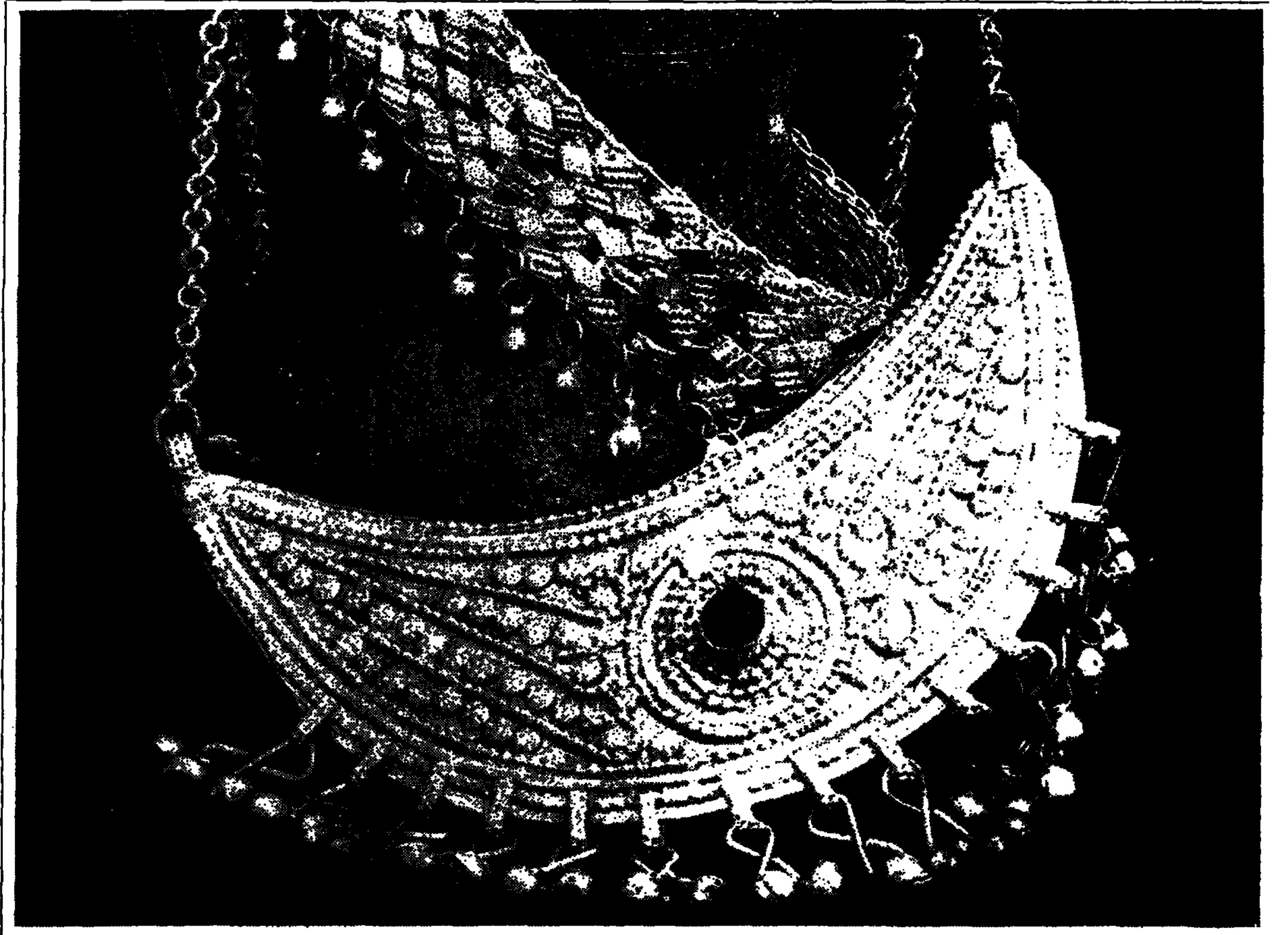
The Sudan Development Corporation, for example is primarily interested in project finance and can dip into its own resources and capital markets to do so. It also has its eye on setting up an offshore finance company to tap the savings of Sudanese working abroad, a potentially important area of banking.

Relending

Another financial institution with an important role to play in banking development is the Industrial Bank of Sudan. This bank operates by relending concessional aid from such institutions as the World Bank, the Kuwait Bank for Arab Economic Development and the West German aid fund at commercial rates, usually 11 percent, to small businesses. Projects usually range between $10,000 and $200,000 and occasionally go as high as $5 million. The developer provides one third of the capital and IBS the remainder. The bank also arranges with local banks to finance working capital

Because of the difficulty in obtaining foreign exchange, projects are usually limited to those using local raw materials. Even so, IBS has enough work for five years.

There is, therefore, a pent-up capital demand for viable businesses. This is unlikely to be met until the country's infrastructural problems ease and big agricultural development projects begin to bring in foreign exchange — a situation that is at least 18 months away. In the meantime, the economy will do little more than tick over and the banks, both local and foreign, will have to find what business they can from the foreign exchange they can generate.



بنك

Emirates: Coping With 'Consolidation' After the Boom

By John Whelan

DUBAI (IHT) — The chief executive of a British merchant bank leaned across his desk in a penthouse suite overlooking Dubai's Al Nasr square. "The boom period is over," he said. "There is no doubt about that. We find that most of our business is concentrated on the smaller stuff, which we would have sniffed at in the palmy days of 1976, when the economy was taking off in all directions."

The United Arab Emirates, an oil-rich federation of seven lower Gulf sheikhdoms with oil revenues of an unexpected $9.5 billion in 1979, whose 862,000 persons live in an area the size of Scotland or the state of Maine, is currently going through a phase of "consolidation" that government officials vigorously deny is a recession.

In the eight years since federation in 1971, when the British withdrew from the Gulf, the UAE, with its liberal attitude toward foreign investment, has become home to 51 commercial banks, 31 of which are foreign, as well as to 11 representative offices of international banks and half a dozen other banks operating as offshore restricted-license banks.

Yet the influx of banks, which together have 340 branches, has also resulted in chronic overbanking. As Abdul Malik al-Hamr, the managing director of the UAE Currency Board (central bank), said: "Everyone is aware that the UAE is overbanked."

In the eight years since federation in 1971, the UAE has become home to 51 commercial banks — 31 of which are foreign — 11 representative offices of international banks and half a dozen other banks operating as offshore restricted-license banks. Yet the influx of banks, which together have 340 branches, has also resulted in chronic overbanking.

The overbanking phenomenon, which is unusual in the Gulf apart from Bahrain, where the international banks are largely operating offshore, seems to have harmed the economy chiefly by allowing speculative real-estate financing. A U.S.-educated Arab manager of a small Dubai bank said: "As repayments are not being made on time, funds are locked up. This has worsened the already serious problem resulting from banks borrowing short and lending long."

The concentration of business in the hands of 10 to 12 banks is another factor that has made it difficult for some of the smaller banks to keep afloat. In May, 1977, two banks were suspended by the Currency Board and the ensuing crisis of confidence in the UAE banking system has left scars. One of the two banks that closed, the Janata Bank of Bangladesh, soon reopened after a rescue operation by the Currency Board. But the other bank, Ajman Arab Bank, has yet to reappear. It is expected to be reconstituted soon with new shareholders as the First Gulf Bank.

Among the changes that resulted from the Janata-Ajman Arab affair were the replacement of a British expatriate, Ronald Scott, as head of the Currency Board, first by a triumvirate of local nationals and then by Mr. Hamr. He came to his job without previous banking experience and is advised by Denis Ferman of the Banque de France, who was seconded by the International Monetary Fund.

The board has faced a difficult task in restoring confidence. For some time, legislation aimed at transforming the Currency Board into a full-fledged central bank has been sought. The stumbling block has been the lack of agreement between the rulers of the seven emirates on the key issue of foreign- currency deposits with the central bank to enable it to support the local currency, the UAE dirham. With the appointment on May 6 of a new cabinet headed by the prime minister and ruler of Dubai, Sheikh Rashid bin Said al-Maktoum, 78, who is also the veteran vice president of the federation, the ground may have been cleared for the rapid reconstitution of the Currrency Board with enhanced powers.

The changes will not come swiftly. During 1978, the Currency Board enjoyed no foreign-currency placements from the emirate governments, which have tended to channel their oil revenues through one or two nationally owned local banks retaining government accounts. This has had the effect of locking up funds that many bankers would like to see being used to bring the economy back to life.

Apart from the central bank legislation, the government has proposed, in response to IMF promptings, the creation of specialized banks such as a Real Estate Bank, an Industrial Development Bank and a Housing Bank that would encourage citizens to build their own homes.

It is the Real Estate Bank that has brought hope to the commercial banking sector, for it is intended to take over the heavy burden of real-estate loans advanced by the commercial banks during the boom of 1974-76. "This would work by the simple expedient of switching the loans to the books of the real-estate bank," a government official in Abu Dhabi explained.

The details of the switch are as yet unclear. Two of the commercial banks in Abu Dhabi — the National Bank of Abu Dhabi is one of them — are among the city's biggest landlords, collecting rents from tenants against the balance of the loans extended to local nationals to finance building. In many cases, the banks delegate the job of managing and renting the properties to real-estate agents, usually British. "The bank's agreement with the locals is that the bank handles all the renting until the loan is paid off," a real-estate agent said. "This means that the local [national] will see little revenue for five to six years. Then he gets his hands on the property and can do what he likes."

Indulge

With most banks already committed to the hilt on real estate, this sector is unlikely to provide much room for growth. Yet the banks have found it remarkably difficult to persuade their customers to indulge in the kind of sophisticated investment opportunities that have attache case-carrying Western bankers flocking to the UAE in search of new business.

What makes it particularly frustrating is the traditional secrecy about business that Arab customers favor. A merchant banker with five years of experience in Dubai said: "The concept of audited accounts is still very new here. How on earth [do you] assess the net worth of a family business when even the head of the clan won't tell you what he's got? We may know that they are all right, but when it comes to convincing international banks to join in a loan syndication, we've got a battle on our hands."

Bankers have also found, to their surprise, a growing feeling that traditional Islamic strictures against the payment of interest, usually avoided by calling it "commission," should be adhered to. The Dubai Islamic Bank, which was the first Islamic bank in the UAE, has proved remarkably successful and has taken part in several industrial ventures, including a gypsum factory at Dubai's industrial zone of Jebel Ali.

The conservatism of Gulf investors has meant that merchant banks have had a slow start in the UAE. A French-speaking banker said in Dubai: "Investment banking is really a nonstarter here. The local man gears everything to a quick return on his money. When I hear the merchant bankers talking about offering corporate advice, I laugh. Most businessmen around here tend to think advice should come free. In any case, if you charge him too much for investment advice, he simply won't pay."

Internationally, the two best-known UAE financial institutions are the Abu Dhabi Investment Company, a merchant bank which acts as the investment arm of the Abu Dhabi government, and the National Bank of Abu Dhabi, which is the government banker. These two institutions have been active in loan syndications, including lending to Arab and Third World countries. Abu Dhabi is also the home of the Arab Monetary Fund, the Arab counterpart of the IMF, and of the Abu Dhabi Fund for Arab Economic Development, which, in concert with organizations like the World Bank, offers soft loans to Arab, Islamic and developing countries in the Third World.

Kuwait: Stable Dinar Spurs Capital Market

By Nigel Dudley

KUWAIT (IHT) — The rapidly expanding capital market is boosting Kuwait's development as a financial center. International borrowers are increasingly eager to get involved in a stable currency like the Kuwaiti dinar, which enables them to avoid the high interest rates and instability of the dollar.

The dinar is valued against an undisclosed basket of currencies thought to be dominated by the dollar and include the yen and mark. Most bankers feel its long-term value is guaranteed. The dinar's stability was a major factor in attracting top rate borrowers to the market.

Highlight

Occidental Petroleum Corp.'s decision in April to borrow 7 million dinars ($25.4 million) has given a further push to the bond market. Occidental is the first U.S. borrower and the first corporation to raise a bond without a state guarantee.

The Occidental bond reinforced the market's progress in 1978, the market's most successful year, when it reached $450 million, making it the third largest sector of the Eurobond market. The 18 bonds issued represented a remarkable recovery from 1977, when only six bonds, worth about $72.4 million, were issued.

A 10-million-dinar bond for the city of Oslo was the highlight of 1978. Oslo was Kuwait's first triple-A borrower, showing the market was not just for local, Third World or poorly rated borrowers. The Oslo bond is one of the largest and has one of the longest maturities (12 years).

Scandinavian borrowers are particularly very interested in the Kuwaiti market. In March, three Finish banks — the Industrial Bank of Finland, the Land and Industrial Mortgage Bank and the Finnish Real Estate Bank — entered the market. They were followed by Norway's municipal financing bank, the Norges Kommunalbank, which announced a 12-million-dinar bond in April.

The future, however, is likely to be with firms like Occidental that want to diversify their risk. Interest rates are thought to be too high to attract many other cities.

The last few months have not been free of trouble. The bond market is relatively unsophisticated, which makes it vulnerable to sudden pressure. There was a major panic in January, when an unexpected liquidity shortage forced one-month interest rates to more than 10 percent and overnight rates to a high 50 percent.

Regulations

Bankers were nervous for some time. A 10-million-dinar bond for the Companhia Energetica de Sao Paulo was delayed twice, and at least one banker is still advising clients to make private placements.

Interest rates have returned to normal now. Most bankers are confident the liquidity shortage was only a hiccup in the market's development. But the speed with which things got out of control showed the need for regulations.

The Central Bank hopes to mop up excess liquidity by introducing Central Bank bills soon. Initially, the bills will be available only for commercial banks, but, later, investment banks will be able to buy and deal in them. Other mechanisms should make the market easier to control. Certificates of deposit and promissory notes have been introduced and bills of exchange are being considered.

The development of the secondary market by the Arab Company for Trading Securities during the last two years has given the market greater flexibility. It has helped to raise liquidity and trading in dinar bonds and to make interest rates more realistic by relating them to a bond's potential performance on the secondary market.

But bankers feel that the secondary market must expand. Some suggest an arrangement similar to the London market, in which all Kuwaiti banks will be equal shareholders.

At the moment, ACTS has a virtual monopoly, although an American bank, Merrill Lynch International, started a secondary market in November, 1978, for issues it manages or co-manages and similar operations are being considered by the local investment banks, the Kuwait Investment Co. and the Kuwait Foreign Trading, Contracting and Investment Co.

Bankers say that ACTS — which is owned by the Kuwait International Investment Co. and the Industrial Bank of Kuwait — controls too much of the market. ACTS accepts this. "We need more secondary markets in Kuwait," says Osama al-Ansari, the general manager. "People with a dinar-based house should enter the market."

Stock Exchange

Kuwait's stock exchange, which is open only to Kuwaitis and remains an outlet for speculation rather than an additional source of capital, is gradually achieving a final state. Last year, there was a 1,400-million-dinar turnover in 36 stocks on the market. Although the government hopes to increase the number of stocks listed, there is as yet little incentive for private Kuwaiti firms to go public.

In contrast to the rapid expansion of the capital market, the growth of commerical banks has slowed during the last 18 months, after the boom period in the middle 1970s. Total assets of the commercial banks grew by a relatively modest 24 percent in 1978 to 3.5 trillion dinars, compared with 42-percent growth in 1977.

The rapid and profitable growth of the six commerical banks — all Kuwaiti owned and four entirel privately owned — has been due t their emphasis on domestic business. The first Islamic bank (whic neither charges nor pays interest the Kuwait Finance House, jus opened and will cater to those wh refuse, on religious grounds, to invest in commercial banks; an there are three specialized institutions — the Kuwait Real Estat Bank, the Industrial Bank o Kuwait and the Savings and Credi Bank.

Challenge

Kuwait also has the largest concentration of investment banks and financial companies in the Gulf area, giving it the potential to become the investment banking center of the Middle East.

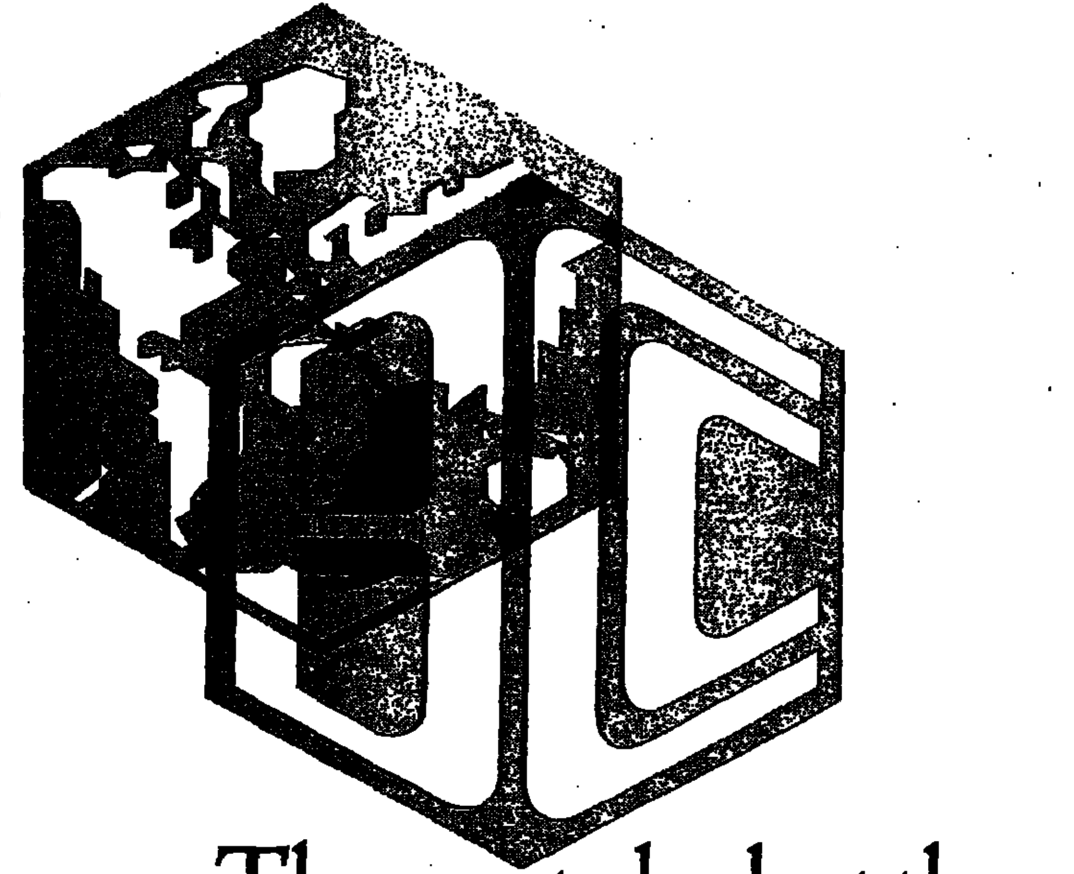
The main challenge to Kuwaiti banks comes from Bahrain's offshore banking units (OBUs). There is little love lost between the two. The OBUs are able to lend at competitive rates in Kuwait, and local banks have begun to feel the pinch, particularly with the recent downturn in the market.

Relations have not been helped by the Kuwait Central Bank's decision to alter reserve requirements — a move designed to hurt the OBUs. The reserve requirement was changed from a flat 25 percent to a series of different ratios for different maturities. Money placed outside Kuwait for one month — almost entirely with the OBUs — no long counts toward reserves.

Kuwait's future as a financial center is at a delicate stage. It has advanced during the last 18 months on the back of a weak dollar, but some bankers believe it can meet the challenge of a stronger dollar. "We are confident institutional investors will stay in Kuwait to provide an infrastructure for the dinar," one commented.

Others are not so sure. They say that the market may have lost its impetus and there is no chance of a high return on investment. Now that the dollar is getting stronger, they warn, dinar assets will be converted into dollars.

The government will be watching carefully. Finance is second only to oil and gas as a source of revenue. When the oil runs out, Kuwait will need to look to banking to guarantee its future.



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TOTAL CLIENTS DEPOSITS	666,000,000	159,500,000
TOTAL INVESTMENTS	475,000,000	114,000,000
LIQUID FUNDS NET (BANKS DEPOSITS DEDUCTED)	225,000,000	54,000,000

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CAPITAL	12,000,000	4,000,000
RESERVES	5,000,000	1,700,000
PROVISIONS	29,000,000	9,700,000
BALANCE SHEET TOTAL	690,000,000	230,000,000
TOTAL CLIENTS DEPOSITS	590,000,000	196,000,000
TOTAL INVESTMENTS	384,000,000	128,000,000
LIQUID FUNDS NET (BANKS DEPOSITS DEDUCTED)	226,000,000	75,000,000

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	FF	US$
CAPITAL	50,000,000	12,000,000
BALANCE SHEET TOTAL	240,000,000	57,000,000
TOTAL CLIENTS DEPOSITS	125,000,000	30,000,000
TOTAL INVESTMENTS	101,000,000	24,000,000
LIQUID FUNDS NET (BANKS DEPOSITS DEDUCTED)	28,000,000	6,700,000

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TOTAL NET WORTH OF OVER	**40,000,000**

بنك

Saudi Monetary Agency Indicates Economic Plan Success

By David Shirreff

LONDON (IHT) — The Saudi Arabian Monetary Agency is among the world's richest and most inscrutable of central banks. In times of crisis, it most often stays silent, like the Sphinx. Bankers who deal with it know that to understand its policies, they must learn to interpret the silence.

SAMA has not published a full account of its international assets since March, 1977, when they were reckoned to total $52 billion. Since then estimates have gone up and down — but it would be safe to say that the banks' assets are now slowly falling. The reason is the huge development going on within Saudi Arabia, at least two-thirds of which is directly financed by the government.

SAMA's 1978 annual report gives an account of the last three years' activities, since launching the $142-billion Second Five-Year Development Plan (1975-80). The first two years were a classic example of what happened to most of the Organization of Petroleum Exporting Countries after they had won the battle to quadruple oil prices: inflation, port congestion, shortage of materials and fierce competition for housing, transportation, telephones and other services.

Mid-1977 began to see the lull after the storm. Now, two years later, statistics are beginning to show how the economy rode over the hump and survived. Money supply registered 74-percent, 53-percent and 45-percent growth in three consecutive years, 1975-76, 1976-77, 1977-78. Gross domestic product registered 17-percent, 27-percent then 11-percent growth in the same three years. The value of imports grew at around 80 percent in 1975 and 1976 but fell to 38-percent growth in 1977. The pattern is clear.

> ***SAMA has not published a full account of its international assets since March, 1977, when they were reckoned to total $52 billion. Since then estimates have gone up and down — but it would be safe to say that the banks' assets are now slowly falling due to huge development within the country, at least two-thirds of which is directly financed by the government.***

> ***The 1978 annual report gives an account of activities, since launching the $142-billion Second Five-Year Development Plan. The first two years saw inflation, port congestion, shortage of materials and fierce competition for housing, transportation, telephones and other services. Now, statistics are beginning to show how the economy rode over the hump and survived.***

SAMA congratulated the government for beating inflation.

The best register of inflation is perhaps the nonoil GDP deflator, which was fixed at 52 percent, 30 percent and 18 percent in the same three years. The cost-of-living index, cushioned by government food subsidies and rent controls, evened out from 32 percent, through 11 percent to 4 percent per year over the same period.

A cooling down of the economy was in some ways inevitable. Ports, roads and telephone networks were expanded and became decongested. Houses, hotel rooms and consumer items became more available. Land and property prices had to peak, but the government's fiscal policy, keeping budget allocations to the same level for three years, from 1975-76 to 1977-78, ensured the cooling process. In 1978-79, the budget allocation was raised tentatively by 16.7 percent to 130 billion riyals because the year before ministries had been able to spend all their money. The SAMA report does not tell us what happened next.

A firm additional strap was put on inflation in June, 1978, when Crown Prince Fahd ordered that ministries should spend only 70 percent of their allocation. The Finance Minsitry would check any expenditure beyond that point with the utmost stringency.

The move got results, but not always the desired ones. In many cases, the ambitious projects went on, but the contracts often did not get paid because the money was not there. Ministries interpreted the curbs differently, some cutting back their programs, others going ahead as usual in the belief that the government would pay up in the end. By May, there were still some outstanding accounts, with many contractors running high overdrafts.

In the long term, it may be argued that the government's 70-percent rule had to be imposed to keep the economy cool. But in the meantime, contractors have been hurt, and many small businesses dependent on servicing these contractors have been threatened. At the same time, an Interior Ministry clampdown on illegal immigrants, many of whom filled gaps in the labor force as cooks, car washers, watchmen and couriers, has forced up the cost of labor. The SAMA report does not mention these phenomena, which have been going on for at least 10 months, but it may do so next year.

SAMA is more interested in the way the economy is diversifying itself away from the dominant oil sector. The oil sector's contribution to GDP actually dropped in 1977-78 by 1.6 percent in real terms, compared with a 13.3-percent growth the year before. This was largely due to factors outside the country — the oil price freeze and the slump in world oil demand. At the same time, the nonoil sector's contribution to GDP rose over the first three years of the plan (1975-80) from 26 percent to 32.2 percent, then 40.1 percent.

Performance in the private sector has been particularly good, although it could hardly keep pace with vast government spending. In terms of GDP, the nonoil private sector grew at an annual rate of around 18 percent in the first three years of the plan, compared with plan projections of 13.4 percent. The construction sector grew at twice the planned rate of 15 percent a year, and the transportation, communications and storage sector outperformed its target of 15-percent growth a year by more than 9 percent.

The public sector, projected to grow at 12.9 percent a year, instead grew at 23.8 percent, 26.3 percent and 18.3 percent in the first three years of the plan.

Assets

Saudi Arabia's fixed assets, in terms of housing, industrial plants, infrastructure, water resources and agricultural land, are small compared with even the smaller countries of Western Europe. Turning its oil assets through the medium of revenues into fixed assets is the material objective of Saudi development for "the welfare of all sectors of the population," as SAMA puts it. The question is: How much of its oil revenue is Saudi Arabia actually managing to convert into fixed assets at home?

The conversion rate is certainly not 100 percent or even 50 percent. Much of the oil revenue continues to buy technology and services from abroad, more than 10 percent of gross national product goes into foreign aid (although in this report SAMA disappointingly does not say how much) and much is spent on invisible assets like education, medical care and administration. Another great part of Saudi expenditure goes to improving facilities for nearly a million pilgrims coming from abroad every year. There is also surplus revenue that is placed abroad, in the United States, Japan or in Europe.

As SAMA points out, the current-account surplus is declining. In 1976, it was $14 billion and, in 1977, it was just more than $12 billion. As Saudi Arabia's economic base broadens, SAMA will gradually reduce its investments abroad.

Qatar: Fiscal Policy Marked by Cautious Spending

By John Whelan

DOHA (IHT) — Qatar may produce only 1.5 percent of the oil from the Organization of Petroleum Exporting Countries, but the careful spending policies of its government insure that the country will remain a force in financial markets well into the next century.

Government spending has been so cost-conscious that a mission from the International Monetary Fund that visited last October reported that "a moderate expansionary fiscal policy in 1979" was desirable and urged the government to "step up the flow of resources to developing countries."

The restrictive spending policy started in mid-1977 in response to three years of spending that had produced inflation. Cuts froze ongoing work and slowed payments to contractors. Some prestige projects were shelved.

These parsimonious measures, which were in keeping with the character of the modern emir, Sheikh Khalifah bin-Hamad al-Thani, halted the inflationary spiral but had some adverse repercussions on expatriate workers and foreign contractors. The expatriates had difficulty making ends meet, and some of the contractors were forced to withdraw from what they had hoped would be an expanding market.

Surprises

The Qataris, of whom there are about only 50,000, are independent-minded and well known for surprising the banking world. On May 3, 1979, the riyal was revalued by 2 percent against all other currencies. This ended an arrangement for the Qatari currency to be interchangeable at par with the Bahraini dinar and the dirham of the United Arab Emirates. Until then, the three lower Gulf monetary authorities had acted in concert when adjusting their currencies.

The news caused some uncertainty when money markets opened, although the concensus in Bahrain, the regional center for short-term lending, was that there was "no particular depth in the Qatari riyal or much dealing in the currency." Nevertheless, for foreign contractors being paid by the government in riyals, the change may have caused foreign-exchange losses where the contractor had failed to hedge adequately against the risks.

In theory, the riyal is tied to the dollar, which is the intervention currency.

The conservative profile that the Qatari government has maintained on government spending, in sharp contrast to excesses elsewhere in the Gulf, is mirrored in its attitude to its foreign assets. Despite the fluctuations in the dollar, which had lead to losses last year before President Carter's intervention in November, the Qataris told the IMF that they planned no significant changes in the management of their foreign assets. Diversification is being achieved by new placements rather than through shifting the existing assets, they informed the IMF. In addition, no attempt was being made to switch investments in response to short-term changes in interest or exchange rates.

With that statement, the Qataris took a stand close to that of the Saudi Arabian Monetary Agency.

Conscious Move

The IMF strictures on increased foreign aid reflect a conscious move by the government to keep its total aid at about 7.5 percent of overall income. Finance and Petroleum Minister Sheikh Abdel-Aziz bin-Khalifah al-Thani has made it clear that Qatar will honor its commitment to the war chest for states confronting Israel, as agreed at the Baghdad summit in November. The IMF would clearly like to see Qatar maintain its past generosity to Arab and Third World countries.

The interest of the international banking community was aroused by the foreign-borrowing program that Qatar carried out in 1977-78. In 1977, Qatar used $160 million from a Eurocurrency loan to finance some petroleum-related projects, and a somewhat larger amount was drawn in 1978. Exactly why Qatar chose to borrow commercially puzzled many observers.

The IMF mission was told that there had been two considerations. First, Qatar's foreign investments give an average yield higher than the rate of interest on borrowings, so it was considered advisable to borrow from the market rather than to liquidate investments. Second, it was hoped that the use of commercially borrowed funds would make the enterprises more efficient and cost-conscious.

Rethinking

There is a feeling that the government is now rethinking the wisdom of making such loans. The expectations for heavy industry, located in an industrial zone in Umm Said, 30 miles south of the capital, have been revised in recent months. The Qatar Steel Co., which has the Gulf's first plant using the direct-reduction process, is said to expect profits of only $23 million for 1981, the first year it will reach capacity, from a gross income of $250 million. The margins for petrochemicals and gas-liquids industries are bigger, but the experience of industry in the Gulf suggests that there may be difficulty in reaching the targets.

The domestic banking sector is regulated by the Qatar Monetary Agency, which the IMF believes should be gradually involved in the analysis and formulation of economic policy. This is now concentrated in the hands of the emir and his closest advisers. Foreign entrepreneurs still deal largely through the palace, although some specialized agencies exist.

The 12-member banking community, dominated by the Qatar National Bank, which is 50-percent government-owned and acts as the government banker, was recently joined by a 13th bank, the Doha Bank. Its shareholders include prominent Qatari businessmen, and it will handle a full range of business, including syndications. Public response to the share offer was enormous and oversubscribed.

The Qatar National Bank, with its branches in London and Paris, is the only one of the three local banks with offices in Europe. Its 1978 results show a healthy increase in profits to the equivalent of $13.9 million, compared with $12.2 million in 1977.

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بنک

Postwar Record Encourages Hopes for Lebanon's Economy

By Samir A. Makdisi

BEIRUT (IHT) — The disruptions of the Lebanese economy during the war of 1975-76 turned out to be of lesser magnitude than had been originally feared. Unfortunately, the national political reconciliation hoped for *with the ending of the Civil War* has not yet materialized, and the security situation in certain parts of the country has so far not been totally stabilized. But in contrast with the country's less than satisfactory political developments, its economic record is much more encouraging, especially when one considers the political conditions that prevailed in the past year.

As an illustration, while 30 percent of national industrial capacity had been disrupted during 1975-76, the industrial sector has continued to produce at a level that may be considered significant. Available estimates for industrial exports indicate, for example, that their levels (measured in current prices) in 1977 and 1978 were substantial, although, of course, below their peak level in 1974. When one allows for the inflation factor, the result becomes less favorable but remains sufficiently impressive.

Similar considerations apply to national income, which in 1978 is officially estimated to have more than regained its pre-1975-76 level, again measured in current prices. The balance of payments has continued to perform generally well, and the central bank's international reserves, which before 1975 had stood at a high level, have risen further — to $2.2 billion at the end of March, 1979.

One favorable factor of the balance of payments has been the substantial remittances by Lebenese who opted during the war to work abroad, particularly in the Gulf countries. This temporary immigration has not only helped the balance of payments but has also, to a certain extent, helped alleviate the problem of unemployment, albeit at the cost of the departure of skilled manpower. The banking sector has generally continued to exhibit elements of strength but, again, not without the appearance of certain weaknesses pertaining to the investment pattern of the commercial banks.

Host of Problems

The war has, of course, left behind major problems: Housing for many people who have been forcibly evicted from one area or another; the restoration of damaged physical facilities;, the disruption of the Beirut port (although what now prevents full resumption of its activities are largely political rather than economic considerations); hesitancy on the part of the private sector to undertake new ventures until the political situation has relatively settled; not to mention various social issues that need to be assigned high priority.

Bearing in mind the host of problems left by the civil war, one can perhaps still state that given the prevailing political atmosphere, the pace of economic activity may be judged as having been relatively strong, thanks in large measure to an enterprising private sector.

Government response to the economic consequences of the war has taken two main forms: One, an attempt to help settle various immediate economic issues, such as creditor-debtor relationships, and provide funds for reconstruction in the private sector; two, the establishment of the institutional framework considered necessary for future socio-economic planning — hence the creation of the Council for Development and Reconstruction in March, 1977.

The council, in cooperation with the ministries and other public bodies, has been entrusted with the task of drawing up an overall development policy and supervising its implementation. Some progress has been made in terms of formulating economic policy positions and a preliminary reconstruction program. But the task of serious implementation has been partly constrained by the still unsettled internal political situation.

Still, certain governmental economic policy positions may be discerned, such as the decision to resort to a certain amount of borrowing directly from the central bank or via the issuance of treasury bills taken up by the commercial banks to cover budgetary expenditure and the recent implementation of monetary measures by the central bank in an effort to limit speculation on the foreign-exchange market. These and other moves constitute ad hoc policy positions and do not yet reflect what may be considered a coordinated economic policy.

Nonetheless, Lebanon has continued to maintain a liberal exchange system — one which permits the absolute freedom of current and capital transfers, based on a flexible exchange rate. This traditional Lebanese external economic policy position has, no doubt, been an important factor in generating confidence in the Lebanese economy and in the Lebanese pound. It has helped the Lebanese banking system maintain a certain amount of vigor under politically unsettled conditions.

Prewar

Before the war, banking system had been expanding rapidly in terms of the growth of deposits and credit operations, accompanied by a rising level of net foreign assets. In 1974, total deposits and domestic credit stood at 115 percent and 60 percent, respectively, of the gross national product. Along with an active money market (including active foreign-exchange and interbank markets), a capital market was beginning to be established. The war disrupted this development. But more recently, another beginning is being made as a result of the government's need to borrow funds from the banking system. Given future needs for capital financing, this market is expected to grow, particularly as far as domestic operations are concerned.

The recently established mixed (public-private sector) longer-term credit institutions, such as the housing and agricultural banks, along with the National Bank for Industrial and Tourist Development, which began operations in 1973, should help in the development of the capital market.

Despite the war and the occasional political disturbances in certain parts of the country, deposits with the commercial banking system (measured in current prices) rose from 8.2 billion pounds at the end of 1974 to 14 billion pounds at the end of 1978, an increase of about 70 percent during the four-year period. Domestic credit rose during the same period from 4.8 billion pounds to about 10 billion pounds, an increase of about 108 percent. Finally, net foreign assets of the whole banking system rose from the equivalent of 5.76 billion pounds to the equivalent of about 9.55 billion pounds, an increase of about 65 percent.

When the inflation factor is accounted for, the results will not be as striking (unfortunately, no reliable price index for the period is yet available). Nonetheless, the data are indicative of continued monetary vigor.

It is true, on the other hand, that the investment outlets for the commercial banks have been less varied and, on the average, perhaps less lucrative than before. Consequently, the commercial banks have been highly liquid. This problem — if it is one — is to an extent a function of the prevailing political atmosphere, with its economically constraining influence. Once the political problems have been resolved, public and private demand for funds may be such as to pose a policy issue for the monetary authorities, namely, how, and to what extent, to control the rate of credit expansion.

International

The above observations largely pertain to certain domestic aspects of the present and prospective position of Beirut as a financial center. Its growth as a regional or international center will be governed by a number of factors, a few of which may be briefly mentioned.

Let us first recall, however, that before 1975-76, Beirut's role as a financial center pertained mainly to the money market, including foreign-exchange operations. Dealings in longer-term financial operations, although growing, were relatively limited. The war caused a number of international companies and a few foreign commercial banks to move out. On the other hand, a number of Lebanese commercial banks expanded their international connections by establishing themselves outside as well as in Lebanon.

To an important extent, Beirut's short-term money and exchange operations have resumed, although the city's function as an intermediary for Arab capital has been reduced. The challenge Lebanon now faces is to re-establish the trend that was disrupted in 1975-76, i.e. the evolution of Beirut as an important financial center, handling short-term as well as longer-term financial operations.

In meeting this challenge, there are two factors that are expected to continue to exert a positive influence: Lebanese traditions and accumulation of expertise in the financial field as reflected in the availability of human resources needed for further development of Beirut's financial role; and the liberal exchange policy that the authorities have consistently maintained since World War II, along with a flexible exchange rate.

Capital movements have played and continue to play, although on a diminished scale, an important role in the Lebanese balance of payments. The international connections of the Lebanese banking system have continued to be maintained. The fact that Beirut does not now play the same role it did as an outlet and an intermediary for capital transactions, specifically Arab capital, should not deter its future development. For one thing, it would be wrong to think in terms of one financial center for the whole region. There is no such center today. It is expected that a number of active centers will develop, especially now that there is a wide scope in the region for such a development.

Challenges

But for Beirut to forge ahead as one of these centers, a number of challenges have to be adequately met. Here are three of them, apart from the obvious prerequisite of national political reconciliation:

- The re-establishment of the relative domestic financial stability that Lebanon had experienced up to the early seventies.
- An active financial policy that will permit the monetary authorities to keep a close watch over and influence the pattern of financial developments. This would imply an active policy to develop new debt instruments and insure that proper financial institutions are evolving
- Further substantial improvement in the services sector, particularly the field of telecommunications. It is important for a country like Lebanon, which has rendered and aspires to continue to render international services, that bottlenecks should not occur, as they have in the past.

Arab Banks Find London Key to European Finance

By John Whelan

LONDON (IHT) — The Dubai-based Bank of Oman is the latest Arab bank to open in London, although by no means the smallest. The United Arab Emirates' largest privately owned bank, it joined a handful of banks from the Gulf as well as older established banks that have European equity holders.

In coming to London, the Bank of Oman faced an initial hurdle: The Bank of England declined authorization for foreign-currency transactions because it felt the bank had to establish itself locally first. The chief general manager of the London branch, Rabat Hussain, said: "There has certainly been no displeasure shown by the Bank of England, and we will be applying again for authorization."

Quality Banks

But the Bank of Oman was allowed authorization to buy a small limit of foreign-currency notes before the branch's opening and, in March, was authorized to import letters of credit denominated in sterling.

In many case, Gulf banks, particularly those such as the Gulf International Bank of Bahrain that are prominent in syndications for Arab borrowers, have chosen London as a center from which to make evaluations of European and Mediterranean regions.

The Gulf International Bank is owned by the UAE, Saudi Arabia, Qatar, Kuwait, Oman, Iraq and Bahrain. According to Walid Niazy, a vice-president at the London office, the bank hopes to open a full commercial branch with a dealing room on July 1.

The arrival of such quality Arab banks in London, particularly one established by a treaty among seven Gulf governments, has been welcomed by the banking community.

British banks with long-standing interests in the Middle East have tended to share in the boom, although the London-based British Bank of the Middle East recorded a decline in profits last year due to less business in several important *areas. A contributing factor was the* transfer of the BBME's business in Saudi Arabia to a joint-venture bank, the Saudi British Bank, in June, 1978. Overhead, particularly personnel costs, continued to rise, while the appreciation of the pound sterling reduced the value of profits from overseas by about 6 percent.

Legal Center

The struggle for mandates for syndicated loans by Gulf borrowers still results in many going to British banks despite the rise of institutions like GIB that have the aim of making borrowing cheaper for Gulf entities. Lloyds Bank International is expected to get the mandate to raise $230 million for the Dubai aluminum smelter project, in which there is likely to be an additional Export Credits Guarantee Department element. Morgan Grenfell Co. in London is acting as adviser to Oman on a borrowing for $200 million that is expected to be completed soon.

London has also become an important legal center for Middle East banks and their customers. The law of England is used in government syndication agreements. In the British courts, banks have started actions that often result in important decisions on matters affecting Middle East business.

For example, when a UAE bank sought a ruling in the Sharia (Islamic) court in Dubai declaring nine bills of exchange totaling $14 million void because of a fraud, the decision was immediately challenged in London. If the matter ever goes to court in Britain, the parties could expect an interesting ruling on the conflict of laws. Although the UAE bank acted because of a fraud, the Dubai judgement, which British banks are anxious to challenge, brings into doubt the time-honored maxim that a *banker's word is his bond.*

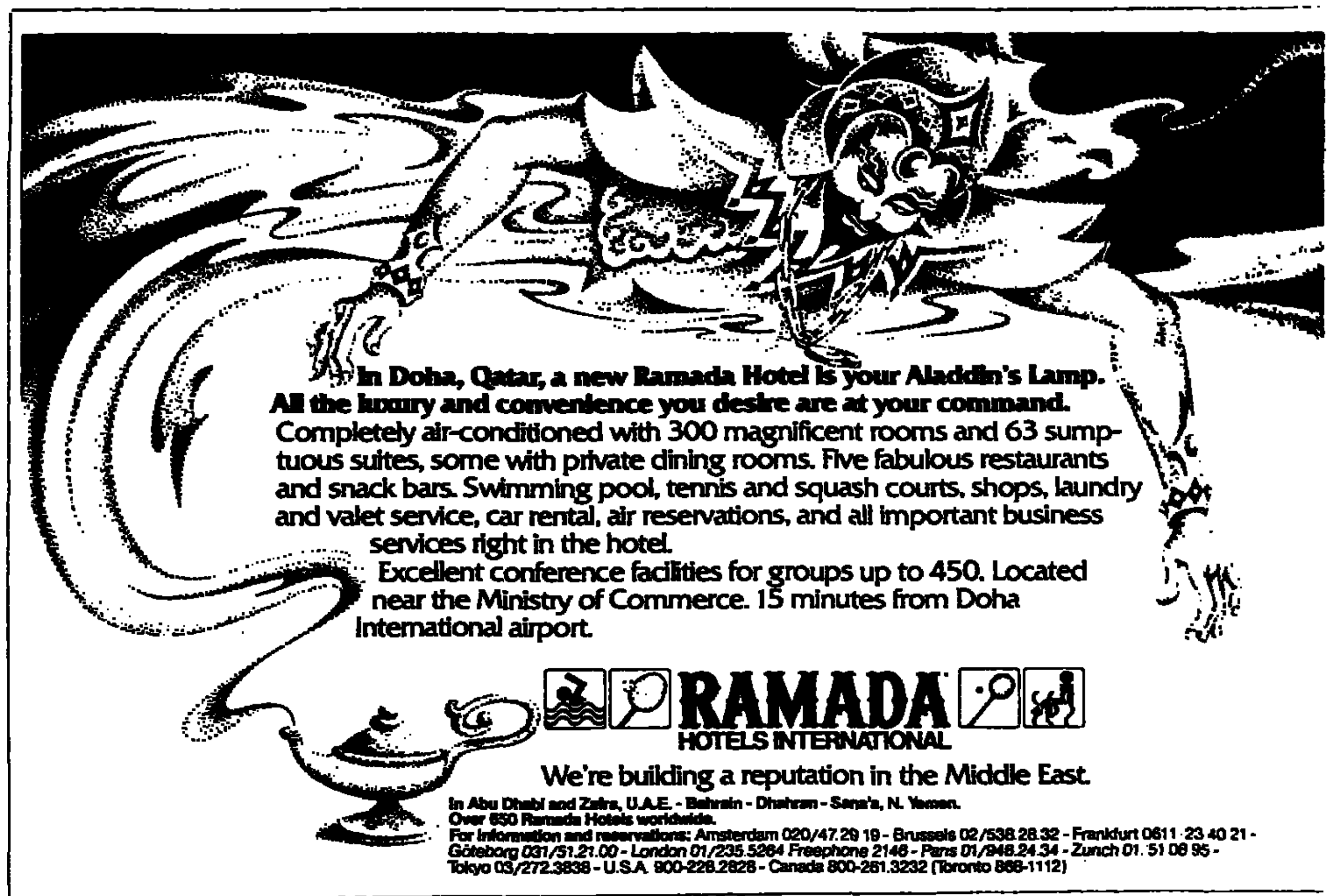
Arab entrepreneurs turn to London in search of medium-term funds to finance industrial or property development in the Gulf. The first real pointer to the current softness in the Gulf's hotel and real-estate market came last year when a syndication exercise for a Dubai businessman to raise $50 million failed. Although there have been reports that the money was subsequently put together by other banks, the failure of the London exercise seriously jeopardized its chances.

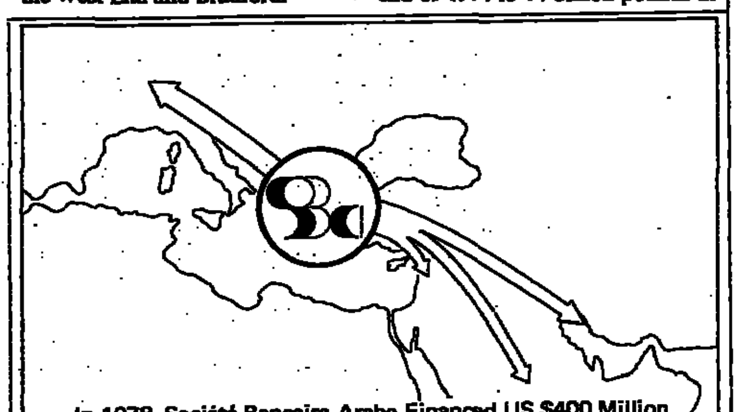
To many observers, it seems paradoxical that the oil-rich states of the Gulf are both exporters and importers of capital. Traditionally, the profile of the Gulf investor has been extremely conservative, and even the City of London finds this conservatism hard to shake.

Newcomer

There has, however, been at least one brash newcomer with Arab connections in London.

The most widely spread of the Arab-owned banks is the Luxembourg-based Bank of Credit & Commerce International, whose major shareholders include members of the Abu Dhabi ruling family. Its distinctive brown tinted-glass windows, rubber plants and money-shop image, have made an impression on the shopping areas of London. BCCI has also opened offices in towns in the north of England where immigrants from Pakistan have settled. It is the only Middle East bank with branches in the West End and Bradford.





بنك

Libya: Adjusting to Qadhafi's 'Economic Revolution'

By Gerard Castoriades

TRIPOLI (IHT) — Economic life in Libya since January has been attuned to part two of Col. Moamer Qadhafi's Green Book, his political credo. Col. Qadhafi launched an "economic revolution" by suppressing all private business and wages as "forms of exploitation and slavery" and replaced them by a "partnership of workers." Employees in all companies were asked to take over business premises, run them and share eventual profits.

That was more easily said than done. Businessmen fled abroad, and the "partners" (workers) did not really know what to do next. Most businessmen had placed orders for large amounts of goods before the "economic revolution" — almost everything is imported in Libya — and had secured bank guarantees for payment by putting their assets, mainly real estate, as collateral. With the takeover of business premises and houses, there is no longer any collateral.

Banks have stopped paying exporters unless they obtain clarification or assurances from someone high up in the administration about their reimbursement. It is not easy nowadays in Tripoli to get some well-placed official to have a bank pay for an outstanding order.

To add to the problem, Libyan bank personnel are changing. Since relations with Egypt became tense, many Egyptians have left. More Libyans and Pakistanis are now employed, and that has meant a change in "communication habits" between the banks and foreign companies and between the banks and expatriates. The foreigners must adapt. More intervention with bank management is required to speed up deals.

Committees

As Libya's nine banks and financial institutions were nationalized in 1970 and belong to the public sector, they have been relatively unaffected by takeovers. "Popular committees" were set up in the banks (expatriate personnel are excluded from committee membership), but the management structure has been left intact. Most of the chairmen and directors were appointed years ago, with the approval of the authorities. They are sometimes required to attend meetings of the "popular committees," but discussions apparently focus more on staff promotions and individual loans than on bank policy.

Most banking actitivity since the "economic revolution" is confined to handling loans, transferring expatriate earnings, financing purchases abroad by now "partner's companies" and at the end of each month handing "fees" to public servants. Fee is now the official word for wages, which no longer exist.

There are also no investments, since the real estate market no longer exists, and no stock exchange. Bank deposits are becoming rare. It is impossible to find out exactly what is the amount of money available in banks and how it is now "distributed" in this welfare state. No statistics have been published since Col. Qadhafi's "economic revolution," and even the 1979 budget has not yet been announced.

Demands for individual loans to buy or build houses have increased sharply since Col. Qadhafi's edict of "a house for everyone." Individuals can apply for intrest-free loans up to 14,000 dinars ($47,000) for building a house. Loans are not made in a single installment but as construction progresses. Criteria for such "progress" and loan policies seem to differ in each branch of a bank. The Central Bank, apart from collecting oil revenues, has to act as guarantor and ends up bankrolling all sorts of payments. Since banking in Libya became more of a welfare institution backed by the Central Bank than a business venture, one could consider banks there as virtual branches of the Central Bank.

Banks also transfer earnings for expatriates. An estimated 400,000 foreigners are permanently employed in Libya, forming about one-seventh of the population. They can send up to 90 percent of their earnings out of the country if employed on a desert site and up to 60 percent if they are employed in cities. Expatriates recruited abroad can make from 600 to 1,000 a week on a desert site.

Libyan banks are required to enforce bank-guarantee regulations for companies under contract there. The enforcement of bank-guarantee regulations was brought about in July, 1977, because of cases of nonfulfillment of contracts. Only guarantees deposited by foreign companies in Libyan banks are admitted. Foreign companies must provide three types of guarantees: a bid bond (usually 2 percent of the contract value), a guarantee for the return of any down payment and a performance bond.

Endorsement of guarantees provided by foreign banks is complicated in Libya. The best advice for companies is simply: Don't try it. In any case, foreign banks are reluctant to provide guarantees to companies operating in Libya because of the stipulation that Libyans could ask for payment on demand "notwithstanding any contestation or dispute." The guarantor has to pay immediately, without any discussion or negotiation allowed.

As foreign banks have no branches in Libya and Libyan banks have no overseas branches, deals are to be made with one of the many joint banks set up abroad with the Libyan Arab Foreign Bank.

This bank is a special case. Since it was set up by the Central Bank in July, 1972, to handle the vast oil earnings and foreign investments, LAFB has become the most active financial institution in the country and one of the fastest-growing Arab and international banks. It retains its independence despite the "economic revolution," management changes and government control. Its chairman, Abdullah al-Saudi, and most of the management, are accountable only to Col. Qadhafi.

LAFB pays for the hundreds of millions of dollars worth of contracts being carried out under the $31.25 billion 1976-80 development plan. With the latest oil price increases, Libya will earn well above $9 billion this year. Oil output averaged 1.9 million barrels a day in 1978. This is much more than the country of 2.8 million people can absorb, and many infrastructure projects already are nearing completion.

Investment Plans

Only 85 percent of the investments planned in the 1976-80 five-year plan will be spent. Even with a more ambitious plan being prepared for 1981-85 and Libya's massive military expenditure (more than $2.4 billion for 1976-80; $439 million for 1978 alone), several hundred million dollars will allegedly be left for investment abroad every year. This money will be channeled by LAFB, which is in a position to make large single loans.

LAFB agreed in May, 1978, to lend $250 million to the Italian state holding group, Ente Nazionale Idrocarburi, and in December, 1976, acquired a 9.2-percent share in Fiat as part of a $ 415-million investment in Italian industry. The bank recorded profits of $84.5 million between 1972 and 1977 and a 1975 turnover of $2 billion. It has shares in 22 international joint banks and has participated in 28 international bond issues worth more than $1.5 million. LAFB has been an underwriter for more than 100 syndicated loans and other bond issues worth more than $6.1 billion, of which about 30 percent went to Third World countries.

This special bank also finances trade with Libya. Its latest moves have been to contribute capital to the establishment of three banks. One was the first Arab-Latin American Bank (Arlabank) based in Lima. Its $100-million share capital has been 20-percent subscribed by LAFB and 20 percent by the Kuwait Foreign Trading, Contracting and Investment Co.

LAFB provided 30 percent of the $15-million capital of the Athens-based Arab-Hellenic Bank, set up in June, 1978, during the first Greek-Arab investment meeting. The third bank, the Libyan-Niger Bank for External Trade and Development, was set up in October, 1978, in Niamey, Niger, with a capital of $2.2 million.

"There are no Libyan banks, there's just the Central Bank and LAFB," diplomats in Tripoli say.

LAFB is considered Col. Qadhafi's most efficient way to expand Libyan influence and export his own brand of "Islam-Socialism," his Third International Theory.

Libyan Arab Foreign Bank Participation in Foreign Institutions

Institution	Headquarters	Capital (million)	LAFB share (million)	LAFB share (%)
Arab Libyan Tunisian Bank	Beirut	£Leb 10	£Leb 6	60
Banque Arabe Libyenne Mauritanienne pour le Commerce Exterieur et le Developpement	Nouakchott	UM 140	UM 71.4	61
Libyan Arab Ugandan bank for Foreign Trade and Development	Kampala	US 60	US 30.6	61
Banque Tchado-Arabe Libyenne pour le Commerce et le Developpement	N'Djamena	AF 250	AF 127.6	51
Banque Intercontinentale Arabe	Paris	FF 40	FF 20	50
Arab International Bank	Cairo	£40	£12	30
Arab Bank for Investment and Foreign Trade	Abu Dhabi	Dh 60	Dh 20	33.3
Banco Arabe Espagnol	Madrid	Pta 1.500	Pta 500	33.3
Farah al-Maghreb Company	Casablanca	MD 40	MD 10	25
UBAF Bank Limited	London	£10	£2.25	25
Tourgueness Company	Tunis	TD 3	TD 0.7	23.3
Arab Real Estate Company	Beirut	£Leb 3	£Leb 1	33.3
Arab International Company for Hotels and Tourism	Cairo	$ 20	$ 4	20
Leather Industries Company	Kampala	$ 2	$0.7	33.3
Union des Banques Arabes et Francaises	Paris	FF 110	FF 7.03	6.39
UBAN Arab Japanese Finance Corporation	Hong Kong	$ HK 25	$HK 1.75	7.0
Unione di Banche Arabe Europee (UBAE)	Rome	L 10.000	L 700	7.0
Arab Libyan Togolese Bank	Lome	na	na	na
Arab Turkish Bank	Istanbul	$15	$6	40
Arab Latin American Bank	Lima	$100	$20	20
Fiat	Turin	L 165.000	L 15.675	9.5
UBAF Arab American Bank	New York	$25.022	$1.75	7.0
Arab Hellenic Bank	Athens	$15	$4.5	30
Libyan Niger Bank for External Trade and Development	Niamey	$2.2	0.75	33.3

Source: Middle East Economic Digest, London

بنك

Lebanon: Political Unrest Tests Banks' Resiliency

By Johnny Rizq

BEIRUT (IHT) — Beirut's bankers have become almost immune to the political turbulence and violence that have kept Lebanon in the headlines since the 1975-76 civil war. Even during the heaviest of the fighting, many banks proudly pronounced "business as usual;" even those that shut their doors or were robbed or bombed always seemed eager to bounce back into operation at the first opportunity. And although it has lost its exclusivity as the financial center of the Middle East, Beirut remains a banking center in its own right.

The resilience and energy of Lebanon's merchant community has continued to provide business for the banks despite the adverse conditions. Indeed, it would be wrong to attribute the decline of Beirut as an international financial center solely to the political crises it faces. Other banking centers — notably Bahrain and Kuwait — emerged in the early seventies and particularly after the 1973 oil-price increases created large dollar surpluses in the Gulf states.

What Beirut did surrender was its role as a main channel for funds from the oil-producing Arab countries to the West. The enormous foreign-currency accounts held in Beirut by Arab governments, enterprises or individuals — whether for local investment or to be invested eventually in the money markets of the industrialized countries — have gradually drifted to less turbulent locations. More Gulf money now finds its way directly to New York, London, Zurich, Paris or Singapore, *without the help of intermediaries in Beirut.*

Nevertheless, most of the approximately 80 foreign banks with branches, subsidiaries or representative offices in Beirut have chosen to stay, although many have trimmed their staffs. There is a realization that Lebanon will always *be an important trade and money* center, and the banks feel it is worth sitting out the lean years in the expectation of good business in the future. The cost of maintaining a banking operation in Beirut is in any case slight when compared with the higher expenses that would be incurred in Kuwait, Bahrain or the United Arab Emirates. Climate, location and the availability of qualified local staff are among the other considerations that have made Beirut attractive to the international banking community.

Expatriate Community

Of course, local business remains strongly tied to Lebanon's *uncertain political fortunes.* The repeated closures of Beirut ports and the loss of some of Lebanon's important transit trade to the Arab hinterland have taken their toll. But Lebanese traders and businessmen have responded to these difficult times by simply moving to other locations — Nicosia, Athens, *Damascus, Amman, Dubai and* even Paris now harbor important Lebanese business communities.

This expatriate community continues to use the service of Beirut banks. Some Lebanese banks have opened branches abroad aimed partly at capturing the business of this community. Others are partners in joint ventures with European or Arab banks. Paris, for example, now houses the Banque Libanaise pour le Commerce, Banque Libano-Francaise, Banque Europeenne pour le Moyen-Orient, the Lebanese Arab Bank and others with strong Lebanese connections. In London, Jammal Trust Bank has recently been opened and more Lebanese institutions can be expected to follow.

Ironically, *the most serious problem* now facing Lebanon's banks is an excess of liquidity. With little scope for investment in industry or commerce in the present atmosphere of political and economic unrest, the banks have found themselves with large reserves in Lebanese pounds lying idle. The government has drawn on some of this excess with the issue of treasury bills of maturities from three months to five years. In spite of their very low interest rates, most of these issues have been heavily oversubscribed, indicating the desperate need for good investment opportunities.

Property and currency speculators have also cashed in on the cheap money available from the banks. The activity of the speculators at one point caused such wild fluctuations in the value of the dollar against the Lebanese pound that the central bank found it necessary to intervene. In March, it imposed stricter rules on foreign currency bank dealings and almost immediately the value of the dollar fell back to 3.10 pounds from a high of around 3.25.

Good as Gold

In fact, the stength of the Lebanese pound has never been in serious doubt. Although its value fell by about 30 percent at the height of the civil war and now tends to fluctuate with the political barometer, it has not suffered a real crisis of confidence. Capital flight during and after the war was not on such a scale as to cause serious concern or to induce the authorities to impose any kind of exchange restrictions. Remittances from Lebanese working abroad, particularly in the Arab oil-producing countries, are now estimated at more than $100 million a month. They nicely offset the balance-of-trade deficit running at about the same rate. But above all, it is the currency's gold and foreign-exchange cover that explains its almost legendary strength.

The central bank's gold reserves, valued at the old official rate of $42.50 an ounce, are worth more than $420 million. At its current *market price, this gold pushes the* country's foreign reserves to well more than $3.5 billion, giving the pound gold and foreign exchange a backing of about 200 percent. The central bank's policy is apparently still to maintain, and raise, the level of foreign reserves. The favorite phrase of Lebanese businessmen *that their currency is "as good as* gold" is not without justification.

The strength of the pound is perhaps one of the factors that has so far saved Lebanon from falling into total economic collapse as a result of its political insecurity. How long the economy can continue to brave such hardship, however, is uncertain.

Lebanon's liberal economic system and banking laws, its strict application of banking secrecy, and the wide range of auxiliary services — financial and otherwise — that Beirut could offer made it a natural haven for the fortunes of the Arab world. Even some of the glamour and color that earned it the nickname "Hong Kong of the Middle East" is still there. Remarkably, Beirut is still recognized as one of the most importent centers of the world gold bullion trade. It is also well known as the source of many of the high quality foreign gold coins — actually made with the correct gold content — that have duped bankers and dealers throughout the world.

But bankers and bullets have never been friends. Whatever the wizardry of Beirut's money-men, the city's future as a Middle Eastern or international financial center *is looking dim, and is inextricably* linked to politics. If total peace returns, then Beirut's natural qualities will undoubtedly help it return to prosperity. But among all the qualities desirable in a financial center, security is perhaps the most important, and without it Beirut can only decline.

Bahrain: Offshore Markets for Short Money

By John Whelan

MANAMA (IHT) — The pocket-sized Gulf island of Bahrain has become the short-money market for the region since its experiment with offshore banking started in late 1975. The public relations ballyhoo surrounding the banking colony of Bahrain, a sheikhdom whose oil revenues may last only another 15 to 20 years, sometimes overstates the case. But there is little doubt that the 52 offshore banks now licensed consider themselves here to stay.

Indeed, the rush of new applications to the offices of the Bahrain Monetary Agency (central bank) in downtown Manama shows little sign of abating. The latest to get offshore banking unit licenses were the Arab Latin American Bank (Arlabank) and the long-established British Bank of the Middle East, *which had been here only as a commercial bank.*

The exact tally of banks in Bahrain, including commercial banks, representative offices and investment banks, is close to 100. What is more significant is that since the OBU experiment started, no bank has left — although bankers sometimes say that one or two of the smaller banks would like to leave. In fact, Bahrain has succeeded in wooing at least one bank, First National Bank of Dallas, Tex., which this year moved its Gulf office from Dubai, in the United Arab Emirates, to Bahrain.

The offshore banks are prohibited from taking deposits in the local currency from residents, so they offer no competition to the established commercial banks. Their real market is in Saudi Arabia, a fact reflected in the assets of the OBUs, which have shown steady growth since December, 1975, when they stood at $1.5 billion, to $23.4 billion in December, 1978. This gives Bahrain an annual turnover equivalent to Singapore's, although similarities with the Far Eastern capital market end there.

Bahrain has been particularly *pleased by the growth of assets* held in Gulf currencies, which now account for about 25 percent of the total. Profits, too, have held up. All the OBUs operating in 1978 showed profits, although margins were slightly down on 1977, reflecting narrower interest rates in world money markets.

The architect of the OBU experiment was Alan Moore, a British adviser to the monetary agency. His first job, now held by a Bahraini, was as director general of the agency. His role was to persuade the banking community that *Bahrain was going to emerge as a* regional money center.

The demise of Beirut because of the civil war in Lebanon helped Bahrain initially, although Mr. Moore and his colleagues at the monetary agency insist that the comparison with Beirut is not particularly relevant since Beirut was a *home for retail banking. By contrast,* the OBUs operate with few restrictions, pay no taxes apart from a $25,780 annual license fee and have no exchange controls or reserve requirements.

Bahrain is often thought of as a home for dollar deposits, which are simply booked through Bahrain for *tax reasons and could easily be* shifted elsewhere. It is also vulnerable to turnarounds in the dollar. After President Carter's support package last November, there was an immediate rush out of Gulf currencies into the dollar, showing that, as one Manama banker put it, "the Arab investor is usually only happy if he's holding the greenback."

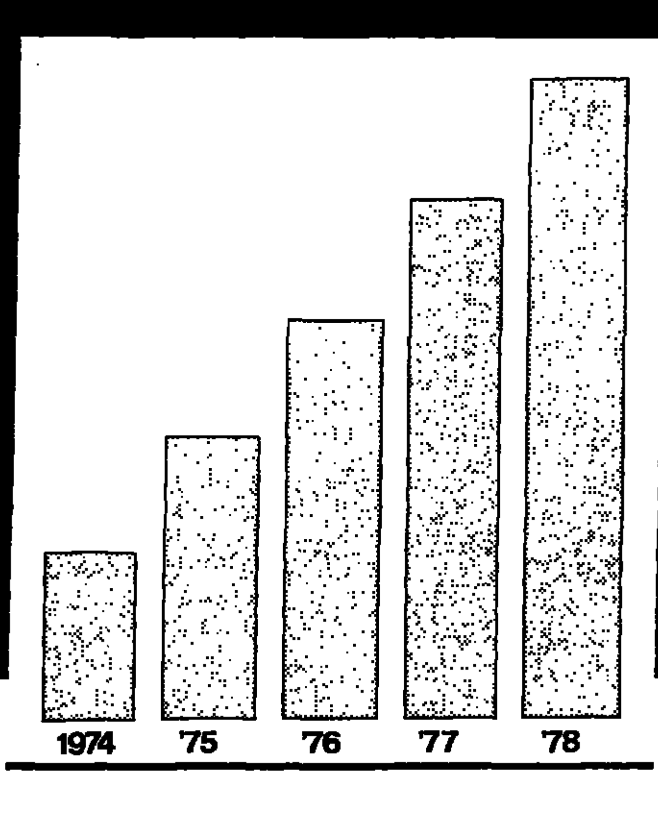
With the consolidation of the economy that has overtaken many Gulf states since 1976, the market has also revealed its vulnerability to cuts in government spending. "It is *very easy for the Gulf money system to drain,*" Mr. Moore said. "If a government doesn't convert dollars at the same rate as the private sector is paying for imports, the system can run short. The main source of credit in the Gulf states is government spending."

The nature of the largely *expatriate banking community in Bahrain,* which now has its own bankers' club, has also caused some headaches. Those who have been called the "suitcase bankers" — the traveling representatives — have upset some neighboring states by offering letters of credit and other retail banking instruments, often at *better terms than the domestic banks.*

Kuwait's modification of its definition of liquid assets in commercial banks to say that deposits of up to one month have to be with banks inside the country effectively stopped the flow of funds to Bahrain, which relies heavily on the short-money market. It is now thought that the UAE may bring in similar restrictions that, despite the unpopularity of the volatile UAE dirham in Bahrain, would tighten the screw even further on the OBUs.

OBU bankers are forthright about the Kuwaiti move. "It is nothing less than a stab at our jugular vein," one U.S. banker said. "It is going to make 1979 even more difficult than we anticipated. The whole point about being here is doing short funding. Take that away, and there is not much left."

The Kuwaiti intentions to protect their commercial banks challenge the prevailing view in Bahrain that the two centers are not in competition. In Bahrain, international bankers using European and American techniques, such as the roll-over credit and the broadly based banking book that *permits medium-term lending even* where deposits are essentially short-term, have threatened the monopoly of the Kuwaiti banks in Kuwait. Banks in Kuwait have traditionally made loans against a 50-percent security. In Bahrain, financing is done against the balance sheet.



بنك

Egypt: Return of Foreign Banks Provides Challenge

The arrival of about 70 foreign banks in the wake of President Anwar Sadat's open-door policy has given the center of Cairo a facelift . . . while it is unlikely to match Beirut in its heyday as a financial center, this city will come into its own as the telephone system improves, the open market supersedes the parallel market as the principal foreign-exchange market and other financial institutions — such as a properly instituted foreign-exchange market and a stock exchange — are established.

(Continued from Page 7S)

own way. This also allows for generous concessional aid. The problem is not lack of hard currency but of Egyptian pounds, which are kept in short supply because of tight monetary policies.

One way in which foreign banks (and lately also the local banks) have been able to attract foreign-currency deposits has been to offer highly competitive interest rates. Rates currently run to 10.5 percent for 12-month dollar deposits. Domestic interest rates have been rising gradually to a current 8-percent base rate, but nowhere near fast enough to compete with hard-currency rates. A further rise in domestic interest rates is essential if the local banks are to attract Egyptian pound deposits and to reverse the current tendency to buy dollars in the open market for hard-currency deposits.

Another significant development was the amalgamation at the beginning of the year of the official and parallel exchange rates. There are now effectively two exchange rates: The parallel rate of 69 piasters to the dollar, which is pegged by the Central Bank, and the open-market rate, which varies between 72 and 80 piasters depending on supply and demand.

The open market is gradually being developed at the expense of the parallel market — a pool of foreign exchange replenished by funds processed through the banking system. On the other hand, the open *market is — as its name implies —* a free market that has found official recognition only in the past couple of years. Estimates vary as to its size (anything between $1 billion and $2 billion), but there is no dispute about its importance as a source for trade finance and, recently, for investment finance.

Despite the relative narrowness of the market compared with the growing demands on it — deals of $25 million have been made — it is *already proving itself as an important* foreign-exchange regulator. Many companies needing foreign exchange are prepared to pay a 3 to 4 piaster premium to acquire foreign exchange quickly rather than going through the administrative machine to obtain cheaper hard currency on the parallel market. When the premium widens much beyond this, it tends to cut off demand.

Development Loans

Another development has been the growth during the past two years of syndicated loans. Most have been for hotel and property development and the Arab offshore banks, principally the Arab African International Bank and the Arab International Bank. An exception was Chase National's $10 million syndicted loan for a Seven Up bottling plant. This has proved so successful that Chase is now in the process of arranging a sydicated loan of 10 million Egyptian pounds for a plant extension and for a new factory in Alexandria. This will be the first Egyptian-pound syndicated loan.

Attempts to establish Egypt's credit rating on the Eurodollar market by floating a $300-million medium-term loan have been thwarted by Arab government pressure on the four Arab banks syndicating the loan to withdraw following the Baghdad resolutions against Egypt's singing the peace treaty with Israel. Union de Banques Arabes et Francaises of Paris, European Arab Bank of London, Arab African International Bank and Arab International Bank of London had formed a lead managing syndicate with Deutsche Bank, Credit Lyonnais and Citibank to lead manage the loan.

The funds were to be split one-third to partly finance four McDonnell Douglas DC-10s for Egyptair and two-thirds for specified development projects. Unlike a $250-million loan managed by Chase Manhattan of London in the spring of 1977, this did not have the Gulf Organization for the Development of Egypt guarantee, but was underwritten by the Egyptian Central Bank. The Egyptian authorities have now decided to raise funds separately for the DC-10s. Citibank has revived an original proposal to raise up to $130 million for the aircraft and Bank of America has expressed interest in joining it. But Egypt is unlikely to get such favorable terms as under the original deal, which was set 1¼ to 1⅜ percent above the London interbank offered rate (Libor) for the development project and 1 percent above Libor for the aircraft purchases. Egypt may now have to pay up to 1½ percent above Libor for the aircraft alone.

The vulnerability of the loan to political factors shows how fragile is *Egypt's economic recovery.* Should the Baghdad resolutions be implemented in full it would mean more than loss of revenue for the Arab offshore banks which have done well in Cairo. The decision to close down the Arab Organization *for Industrialization,* the $1.4 billion Arab arms industry based in Cairo, is affecting business confidence. Should funds for hotel and property development dry up it would hurt the important construction industry, while a fall in Arab tourist revenues is already producing liquidity problems in the retail banking sector.

Nevertheless, the achievement in the way banking has developed since 1973 should not be underestimated. The foreign banks are now acting as a catalyst for the domestic banks in finding traditional banking skills and looking for investment opportunities. At the same time, the more profitable foreign banks such as Chase National, a joint venture by Chase Manhattan and the National Bank of Egypt, which has a majority Egyptian participation and is, therefore, able to work the lucrative combination of offering both local and hard-currency accounts (offshore banks are not allowed to operate in local *currency*), will find the going hard.

Cairo is unlikely to match Beirut in its heyday as a financial center. But this city will come into its own as the Egyptian telephone system improves, the open market supersedes the parallel market as the principal foreign-exchange market and other financial institutions — such as a properly instituted foreign-exchange market and a stock exchange — are established.

Saudis: Conserving Largest Money Surplus

(Continued from Page 7S)

tions for Westinghouse Saudi Arabia. "The OBUs have been doing what Saudi banks by design or default couldn't do."

By early last year, however, faced with increased internationalization of the riyal, including a significant amount of speculative and non-Saudi business, SAMA clamped down on issuing new syndicated loans.

Competition

Part of this reaction was brought on by the Saudi belief that the OBUs were not conforming to market conditions but capitalizing on a weak banking system.

"Until six months ago the OBUs were acting like cowboys," says a foreign finance manager resident in the kingdom. Noting how SAMA has now eased up, he said: "They [SAMA] haven't caned them, just *made circumstances such that* [the OBUs] now desist giving undue and unfair competition to Saudi banks."

At present, SAMA has allowed the Saudi National Commercial Bank to open an OBU in Bahrain and permits international loans under certain understood conditions: The syndication must be led by a Saudi bank; half the sum must be from local banks; the borrower must be a Saudi company; and SAMA must give its approval. "As rules of etiquette go, these are more draconian than delicate, but at least they represent a loosening of the regulations," said Richard Cusac, a Citibank officer.

While SAMA does not want to take on the burden of internationalizing and policing the riyal, but it did establish 50 percent-ownership of the Saudi International Bank only two years ago to get a dominant position in riyal transactions on the London money market.

In long and medium-term loans, government-supported credit institutions issued 17.7 billion riyals in *the fiscal year ending in 1978. They* were led once again by the Real Estate Development Fund, which provided private and commercial housing construction loans totaling 6.03 billion riyals. (The REDF's *budget was cut to 5 billion riyals* for the current fiscal year.) The Public Investment Fund followed with 5.89 billion riyals, and the next highest was the Saudi Industrial Development Fund with 5.15 *billion riyals. Together, these three* institutions accounted for 97 percent of the credit issued by government-supported bodies during the year.

Commerce Bank Credit by Economic Activity of Borrowers

(Million Riyals)

End of period	FY 1971/72	FY 1972/73	FY 1973/74	FY 1974/75	FY 1975/76	FY 1976/77	1975	1976	1977
Agriculture and fishing	10	11	20	34	38	36	34	52	67
Manufacturing and processing	112	102	221	760	1,011	1,000	1,001	1,169	1,138
Mining and quarrying	37	35	24	40	30	59	67	41	36
Electricity, water and other utilities	83	56	116	195	172	250	142	299	223
Building and construction	266	302	518	1,186	1,882	1,961	1,437	2,218	2,467
Commerce	569	637	1,176	1,836	3,186	2,808	2,338	3,700	3,315
Transport and communications	27	41	105	179	209	193	192	231	163
Finance	121	85	63	74	122	360	68	163	104
Services	19	37	67	84	193	152	133	234	203
Miscellaneous	375	400	748	910	1,444	1,476	1,136	1,528	1,806
Total	1,619	1,706	3,058	5,298	8,287	8,295	6,548	9,635	9,522

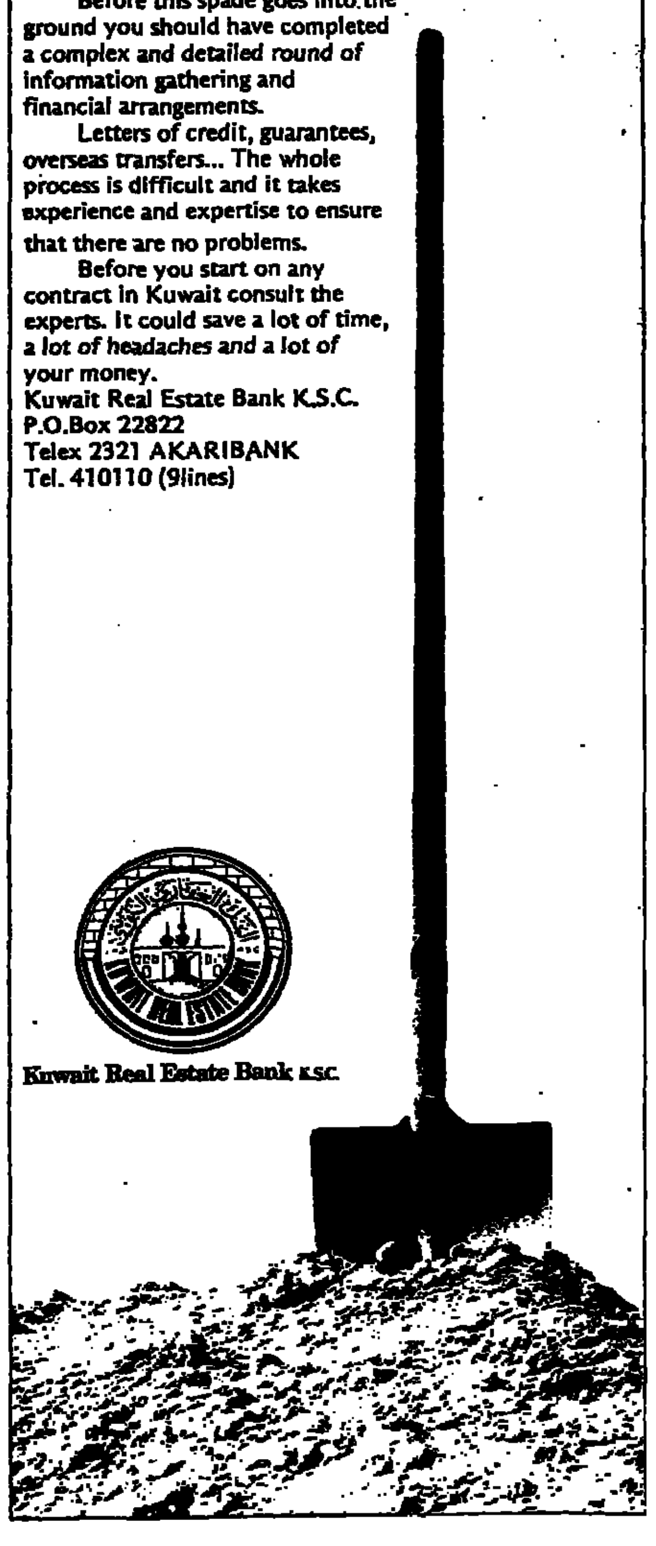
Note: FY = Fiscal Year
Source: SAMA Annual Report for 1978

Summarized Commercial Bank Balance Sheet

(Million Riyals)

	1975 (1395)		1976 (1396)		1977 (1397)		1978 (1398)
	Mid	End	Mid	End	Mid	End	Mid
Bank Cash	3,530	4,845	6,038	7,111	12,288	15,244	18,324
Foreign Assets	2,370	3,617	5,425	8,289	9,432	9,687	14,690
Claims on private sector	5,401	6,722	8,507	9,884	8,413	10,118	11,217
Unclassified assets	485	528	1,720	2,546	5,059	6,876	8,283
Total assets and liabilities	11,786	15,712	21,698	27,831	35,192	41,926	52,514
Total deposits	9,808	11,302	15,894	19,365	23,728	28,704	35,647
Monetary	5,632	7,427	11,012	13,607	17,610	20,793	27,327
Quasi Monetary	3,376	3,875	4,882	5,758	6,118	7,910	8,320
Foreign liabilities	1,007	1,786	2,734	4,669	3,923	5,325	4,838
Capital and Reserves	501	679	807	942	1,114	1,192	1,360
Unclassified liabilities	1,200	1,945	2,255	2,855	6,427	6,705	10,669

Source: SAMA Annual Report for 1978



INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Page 19 Tuesday, May 29, 1979 *

Strong Dollar Said Sustainable

Forex Dealers Indicate Accord

From Agency Dispatches

THE HAGUE, May 28 — The dollar's recent strength on the foreign exchange market can be "sustained" given signs that the U.S. economy is finally "cooling off" and the nation's balance-of-payment position is improving, J.C. Oort, board member of Algemene Bank Nederland told the Forex Association congress here.

Mr. Oort, who adressed the international meeting of foreign exchange dealers over the weekend, said he believed that current "bullish tendencies" for the dollar were linked to "fundamental" rather than short-term factors.

He cited evidence that the United States was witnessing a marked drop-off in business activity as indicating a "recession is in the making." The long-awaited "cooling off" would undoubtedly have a "positive impact" on the nation's balance-of-payments deficit and also on the value of the dollar.

Dealers attending the conference indicated cautious confidence in echoing Mr. Oort's view. They said the outlook for the dollar was good, adding that it seemed less threatened by the current oil crisis than other major currencies such as the yen and to a lesser extent the Deutsche mark.

Some dealers warned that the move into gold could be signalling a period of currency turbulence, but they said that few exceptional currency movements could be expected in the coming months — a seasonally slack period. Dealers generally believed gold would continue to firm, and some believed a sustained rise, reflecting general fears about worsening global inflation, must in the end prove harmful for the dollar.

Opinions differed as to the likely severity of the expected U.S. recession and the trend of U.S. interest rates. Geoffrey Bell, senior adviser at J. Henry Schroder Bank Trust Co. said that there was little potential for lower U.S. interest rates, whatever the depth of the recession or the course of inflation.

Dealers said the present calm on currency markets made it difficult to see clear trends for the European monetary system, but some believe strains inherent in the system because of differing levels of inflation in member countries would begin to show later in the year.

They noted that earlier predictions the dollar would be weakened by the EMS and sterling would decline whether Britain was a member or not have proved incorrect, but many dealers believe that, in the longer term, market forces will force the EMS either to collapse or to adjust to realities in such a way as to render its objectives meaningless.

Risks Not Distinguished

Bankers here also said that the slimness of current lending margins and the question of country debt are the most important problems confronting the Eurocurrency markets and outweigh the matter of greater offical supervision of the markets. They echoed the view expressed by Mr. Oort that lending margins were failing to distinguish properly between good and bad risks and that maturities were becoming too long in the circumstances.

Official supervision of the Euromarkets was instinctively unwelcome among the bankers, who said that the practical problems involved in, for example, international reserve requirements, would prove difficult to overcome. But they generally agreed that more information about Euromarket operations would be helpful to lenders and borrowers and to the authorities.

They said an insistence by the authorities on prudential bank-lending practices in individual countries had a greater chance of success than more global attempts to control the market.

U.S. Study Details Burden Of Oil Rise on Poor Nations

MANILA, May 28 (Reuters) — If present oil prices are maintained, non-oil-exporting developing countries face a $5-billion increase in their aggregate 1979 trade deficit resulting directly and indirectly from the 24-percent increase in oil prices so far this year, according to a U.S. study prepared as a background paper for the United Nations' Conference on Trade and Development here.

These developing countries face a $6-billion rise in their trade deficit this year if oil prices rise a further 10 percent in the second half of the year, the study said.

The aggregate current-account deficit of these countries would be raised to about $37 billion from the $28 billion last year if current oil prices are maintained and would rise to about $40 billion if crude rises a further 10 percent, the study said.

Meanwhile, current-account surpluses of member countries of the Organization of Petroleum Exporting Countries should rise to at least $29 billion this year, nearly 20 times last year's level, the U.S. paper said.

At current oil prices, developing countries would pay $1.6-billion more for their crude this year than they did last year. They would experience a further $3.4-billion increase in indirect costs because of related export earning shortfalls and larger non-oil import bills which would be passing on the oil-price effects on the goods, the paper said.

A further 10-percent rise in oil prices would mean their direct oil import bill would be raised by about $2 billion from 1978 levels and the indirect cost increase would be about $4 billion, it added.

Developing countries attending the Unctad meeting have said they do not want to discuss the oil issue here, but would rather talk about it among themselves at a later date. However, Western nations have tried to introduce the topic as one of the many factors in world trade problems to be solved.

Assuming an OPEC average oil price of about $16 a barrel this year, including the so-called surcharges, OPEC export earnings would rise to about $174 billion from about $140 billion in 1978.

The U.S. forecast that only Algeria, Ecuador and Venezuela among OPEC members would show a current-account deficit, the study said.

The oil price increases imposed by OPEC at the beginning of April have compensated most member states for the higher import prices they have paid since the general oil price increase of January, 1977, the study said.

The terms of trade for the OPEC countries as a group are slightly more favorable now than in the first quarter of 1974.

Even a moderate further increase in oil prices would boost OPEC terms of trade to record levels, but it would lead to a sharp downturn in average reserve holdings and growth rates of the non-oil exporting developing countries, the paper said.

Retail Prices Up in France

From Agency Dispatches

PARIS, May 28 — French retail prices rose 1 percent in April from March, the largest monthly increase in nine months, following rises of 0.9 percent in March and 0.7 percent in February, the statistics institute said today.

The 1970-based index stood at 215.1 in April, up from 213 in March and up 10 percent from April, 1978.

The acceleration of the April index reflected a 1.3-percent rise in service costs. Retail prices of manufactured goods increased 0.9 percent while food products prices rose 0.8 percent.

After the report, Economics Minister Rene Monory said the government's aim to keep inflation in single figures this year should not be called into question despite the April surge. While he made no specific forecast, Mr. Monory said retail prices nonetheless will be consideraly influenced by the rise in oil prices.

The government last year set an 8-percent inflation target for 1979, but Prime Minister Raymond Barre revised the target last week to below 10 percent.

Separately, the statistics institute said its monthly survey found that industrialists foresee a slowdown in the expansion of their production despite some improvement in order and inventory indicators.

Banker Accepts Responsibility In Swiss Scandal

GENEVA, May 28 (NYT) — Ernst Kuhrmeier, former head of Credit Suisse's branch in Chiasso, accepted full responsibility in court today for the biggest scandal in the history of Swiss banking.

Mr. Kuhrmeier, 59, faces up to 15 years imprisonment on criminal charges arising out of the wrongful channeling 2.17 billion Swiss francs (about $1.2 billion at current rates) in Italian flight capital to a Liechtenstein-registered holding company that he controled.

Credit Suisse has written off about 1.2 billion francs in possible losses resulting from the wide-ranging investments in Italy of the holding company, Texon Finanzanstalt.

Claudio Laffranchi, 52, Mr. Kuhrmeier's principal aide, also admitted in court to having participated in the mishandling of the funds Italian investors confided to the Chiasso branch. Both bankers face charges of fraud, embezzlement and mismanagement.

Also on trial today were three Chiasso lawyers, Albio Gada, 55, Alfredo Noseda, 59, and Alessandro Villa, 52, although Mr. Villa was excused from attending the proceedings because of a heart condition. The lawyers, who served as Texon directors, are charged with having assisted the bankers in concealing from Credit Suisse's central management in Zurich the clandestine links between the Chiasso branch and the Lichtenstein firm. The bubble burst for Mr. Kuhrmeier two years ago when the returns from Texon's investments were insufficient to meet the interest payments due to the Italian investors whose funds were being reinvested in Italy unbeknownst to them.

News and Notes

A £40-million bid for the entire share capital of Sheepbridge Engineering Ltd., which makes diesel engines and other components, has been made by Guest, Keen & Nettlefolds Ltd. The U.K. engineering company is offering two of its shares for every five shares of Sheepbridge. Based on Friday's closing prices on the London Stock Exchange, when GKN closed at 282 pence, each Sheepbridge share is being valued at about 113 pence compared with its Friday market price of 66 pence.

* * *

Kloeckner-Humboldt-Deutz expects another good year with markedly higher sales and satisfactory earnings. Otto Liebe, chairman of the West German machinery and industrial equipment manufacturer, notes that sales in the first four months of the year climbed 15 percent to 924 million Deutsche marks from the year-earlier level. The order inflow was up 11 percent at 1.08 billion DM, and the order backlog increased 13 percent to 2.88 billion DM. Mr. Liebe did not project 1979 earnings or say exactly how much he expects sales to climb, but noted that the rate at which sales, orders and backlog rose so far this year placed the company near the top of the nation's machinery makers. However, he noted there has been no decisive improvement in export markets. Exports, which accounted for 55 percent of total 1978 sales, declined to 49 percent in the first four months this year. Export orders received in the first four months amounted to 54 percent of the total inflow, down from 59 percent in all of 1978.

* * *

Atlas Copco sees group sales rising around 15 percent annually over the next three years. Profits are expected to improve also, despite large expenditures on research, development and marketing which are rising rapidly in relation to sales. The Swedish industrial equipment firm says large investments in research and development are need to expand into the manufacturing and processing sectors at the same time as consolidating its hold on the plant and mining technology sectors. While profits have largely covered capital requirements over the past five years, future needs must be financed through increased borrowing to retain a satisfactory degree of financial solidity it said in a prospectus. The company is raising its capital to 1.69 billion kronor from 1.57 billion through a 1-for-6 bonus issue plus a cash issue on similar terms at 60 kronor per share.

* * *

Higher profits, sales are seen this year Sumitomo Electric Industries says. It forecasts after-tax profit in the year ending next March 31 to rise to about 7 billion yen (about $32 million) from 6.08 billion last year, on sales of about 350 billion, up from 311 billion. A spokesman says the company plans to declare a dividend of six yen this year, up from 5.5 yen last year. He attributes the expected rise in profits to the electric cable and wire division, which reflects a recovery of the domestic economy.

* * *

Preussag has a chance of returning to the black this year and resuming paying dividends, Guenther Sassmannshausen, chairman, says. "The chances for this are not bad," he says, noting the improvement in earnings achieved in the final quarter last year was still insufficient to enable the nonferrous metal refining and coal company to pay a dividend for 1978. The company last paid 7 DM for 1976. Operating profits this year should rise, he said. Losses from the coal sector should be reduced while the metals sector is expected to reach profitable levels owing to rising prices.

Oil-Exporting Days Are Numbered for Venezuela

LAGUNILLAS, Venezuela, (AP-DJ) — Venezuela's oil reserves are running out. The day of reckoning is not around the corner, but, barring major new discoveries, it is close enough to worry about.

While Venezuela's total proven reserves are estimated to be enough for 20 years' production, reserves of the lighter, more easily refined crudes could run out in five to seven years. That outlook is based on Venezuela's estimates of reserves; other estimates are lower.

No major oil fields have been discovered since Venezuela stopped granting new concessions to foreign oil companies in 1958. Since 1976, when the holdings of more than a dozen foreign companies were nationalized, a state holding company, Petroleos de Venezuela, has been in charge of the country's major revenue-producing industry.

Petroven says that the proven reserves are down to 18 billion barrels, with probable other reserves at 12 billion barrels. More than 34 billion barrels have been lifted from Venezuelan fields. Outside experts maintain that the proven reserves are about 14 billion barrels and that it is not wise to count anything as probable where oil is concerned.

Specter Seen

Experts agree that Venezuela must find new oil fields if it is to remain a major oil exporter, let alone continue its ambitious and costly economic development programs. To its dismay, Venezuela finds itself the first member of the Organization of Petroleum Exporting Countries to face the specter of "the day the oil runs out."

Before that, oil consultant Walter Levy says of the OPEC nations, "they have to develop an economy that can provide them with sufficient government revenues, foreign-exchange income and employment for the period when the oil bonanza begins to peter out." Shah Mohammed Reza Pahlavi of Iran owes his downfall in part to his obsession with that challenge and his underestimation of the rebellion that the plunge toward modernization could kindle among the Iranian forces of tradition.

In 1974, Venezuela was euphoric over the sudden surge in oil prices decreed by OPEC, which tripled the country's oil income to nearly $10 billion. President Carlos Andres Perez envisioned spending his way to economic development and started a $52-billion, five-year plan to accomplish it. Hardly anyone listened when Juan Pablo Perez Alfonzo, the former mines minister who warned the president against being hasty.

Some fears did arise when the production of crude dropped from its high of 3.7 million barrels a day in 1973 to the 2 MBD that it has averaged during the last two years. But these fears were allayed by official explanations that the decline was due to government conservation measures. Now, however, Venezuelans are hearing otherwise.

Luis Herrera Campins, who recently became the president, declared in his inauguration address last March that conservation had nothing to do with the production drop. "There is a decline in our capacity to produce," he said, "and there hasn't been any effective restitution of it."

It turns out that three years ago the Perez government already was worrying about production capaci-

(Continued on Page 21, Col. 1)

Markets Closed

Markets and businesses were closed Monday in Britain for the Spring Holiday, and in the United States in observance of Memorial Day.

Stein Sees Stock Surge A Possibility

But Oil Next Crisis, Dreyfus Head Says

By Carl Gewirtz

PARIS, May 28 (IHT) — Howard Stein is an optimist, as he no doubt has to be with almost a dozen mutual funds currently valued at about $4.5 billion under his direction as chairman of Dreyfus Corp. He also is a realist.

While Mr. Stein said in an interview here today that he believes "the casual leapfrogging of oil price increases will be the basis of the next crisis," he is confident that a solution will be found.

"No one is suffering enough yet," he said. Unemployment has not begun to move up as a result of the latest surge in oil prices, he key development needed "before governments can come to grips with the problem. Given a crisis situation, resources can be put to work to get out of it. But lacking a crisis, you can't get a unified move to do anything."

He is also sanguine about how this will affect stock prices. The major U.S. and foreign institutional investors have already sharply reduced their U.S. equity holdings, he said. "This has taken its toll, but the (selling) pressure is off. Now, there is a lack of selling as well as a lack of buying," he added.

The Dreyfus Fund, for example, currently has a net value of some $1.37 billion, down from $2.6 billion at its height due to net redemptions by investors, while Dreyfus Intercontinental Investment Fund, whose annual meeting brought Mr. Stein to Europe, has seen redemptions reduce its value to about $12

(Continued on Page 21, Col. 2)

Howard Stein

Exxon Unit Has Oil Discovery

TORONTO, May 28 (Reuters) — Exxon's Imperial Oil subsidiary said today it discovered oil at Norman Wells in the Northwest Territories with recoverable reserves of between 200 and 300 million barrels.

A spokesman said new drilling confirmed the existence of the oil pool. While he estimated the pool could contain 600 million barrels of oil, he said recovery will be difficult because it lies mostly under the Mackenzie River bed.

Saudis Said Raising Oil Production

500,000-Barrel Rise Set After U.S. Appeal

NEW YORK, May 26 (Reuters) — Saudi Arabia has agreed to a U.S. request to increase its oil production temporarily to 9 million barrels a day from 8.5 MBD, its official production ceiling, Newsweek magazine reported in its latest issue.

Newsweek said that although Saudi-U.S. relations had been strained since the signing of the Israeli-Egyptian peace treaty, "the Saudis back Carter's efforts to decontrol oil prices and raise them to the world level."

It quoted a senior U.S. energy official as saying an extra half a million barrels a day would not eliminate the current world shortage but would alleviate it.

The magazine also said next month's seven-nation summit in Tokyo would consider a proposal for the cartel of oil-producing nations to force down prices on the spot oil market.

Meanwhile, the Kuwait News Agency reported that Mana al-Oteiba, Chairman of the Organization of Petroleum Exporting Countries, said the world would face a major energy crisis unless the industrialized countries cut oil consumption.

Market Anarchy

Mr. Oteiba, also the United Arab Emirates' Petroleum Minister, said his country was trying to check what he called the anarchy in the oil market. "This anarchy has just begun and can continue a long time. The world will face a major energy crisis unless the industrialized countries reduced oil consumption," Mr. Oteiba said on arrival from Saudi Arabia.

His trip to Kuwait is the second leg of a five-nation tour which began on Saturday with a visit to Saudi Arabia.

Mr. Oteiba, who will also visit Iran, Iraq and Qatar, is delivering letters from the UAE president to the leaders of the five countries dealing with the oil price situation in advance of the ministerial conference of the 13-nation OPEC in Geneva next month.

Qatar Raises Prices

QATAR, May 28 (AP-DJ) — Qatar has raised its surcharge on oil by 80 cents a barrel to $2.60, retroactive to May 17, the state-run Qatari News Agency announced.

Nigeria Broadens Boycott; May Hurt U.S. Oil Supply

NEW YORK, May 28 (UPI) — Nigeria has broadened its boycott restrictions in a move that could trigger another U.S. oil-supply crisis, Petroleum Intelligence Weekly reported today.

Nigeria exports half its production, or about 1.1 million barrels of oil daily, to the United States and is the nation's second largest source of foreign oil.

The African nation has tightened boycott measures against South Africa, Rhodesia and Israel by imposing stringent rules on tankers that call at its ports. The new rules prohibit tankers that have had any "contact" with the three blacklisted countries in the prior six-week to three-month period from entering its ports.

Nigeria is applying the new restrictions to Shell Oil and British Petroleum, which constitute Nigeria's main oil-producing venture.

Interpretation Sought

The tougher boycott measures apparently affect some of Nigeria's direct crude oil customers but do not extend to U.S., French or Italian oil producers in the African nation, the publication said.

However, "under U.S. anti-boycott laws, U.S. companies could not comply with the new Nigerian rules without violating U.S. law," sources told PIW.

The United States, already squeezed by the disruption in Iranian oil production, could "be facing a new oil-supply crisis," PIW, a trade publication, said.

"The worried U.S. customers of Shell and BP have been consulting with Washington officials for an interpretation of what the law will allow, so they can continue receiving their Nigerian oil supplies," PIW said. But U.S. customers cannot legally cooperate with Shell and BP in satisfying Nigeria's requirements, it said. Even providing simple declarations of "positive facts" such as a list of ports a tanker has visited in the recent past apparently would be illegal under U.S. law.

Many members of the Organization of Petroleum Exporting Countries have direct — or primary — boycotts prohibiting the sale or movement of oil to blacklisted nations, the publication said, but these restrictions do no violate U.S. law.

Secondary Boycott

The issue is that the Nigerian tanker rules would "effectively require U.S. companies to cooperate with an indirect — or secondary — boycott, making them vulnerable to stiff fines and even criminal prosecution in the United States." PIW said.

U.S. laws prohibit domestic companies from honoring secondary-boycott rules designed to prevent business relationships with blacklisted countries or providing information to the boycotting nations on corporate dealings with blacklisted countries.

The new Nigerian boycott restrictions bans tankers owned, operated or chartered in South Africa, Rhodesia or Israel and ships carrying crude or passengers of blacklisted origin.

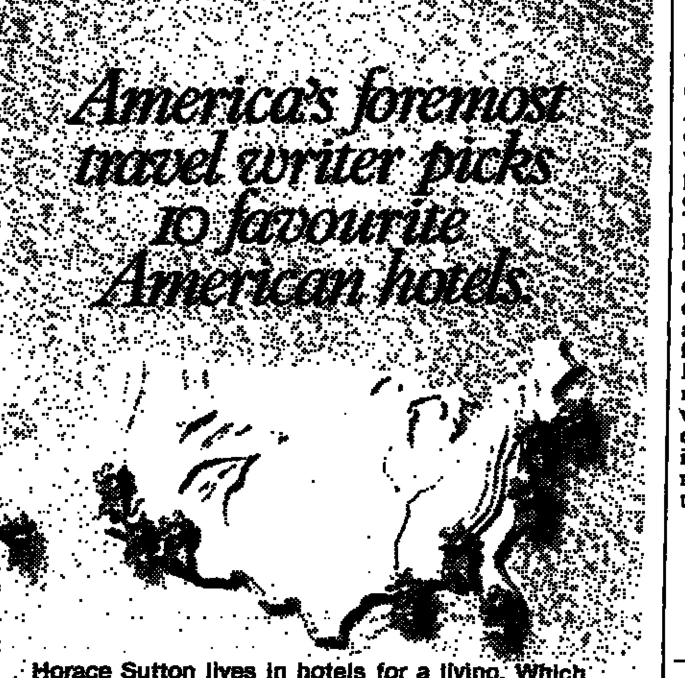
Even tankers that have taken on fuel or picked up mail outside the ports of the embargoed nations will be turned away, PIW said.

"To sidestep the issue, some U.S. firms have exchanged their Nigerian crude for other oils and some are arranging to buy on a delivered-U.S. basis," PIW said.

Company Reports

Revenue, Profits in Millions in local currencies, unless otherwise indicated

France		
Credit Agricole		
Year	1978	1977
Profits	2,730.	1,540.
Japan		
Sharp		
Year March 31	1979	1978
Revenue	339,635.	300,779.
Profits	8,648.	7,449.
Per Share	21.56	22.74
Sumitomo Electric Ind.		
Year March 31	1979	1978
Revenue	310,980.	293,660.
Profits	6,080.	3,960.
W. Germany		
KHD		
Year	1978	1977
Revenue	3,560.	3,910.
Profits	47.55	47.34
Preussag		
Year	1978	1977
Revenue	3,020.	3,000.
Profits	24.90	26.10



Currency Rates

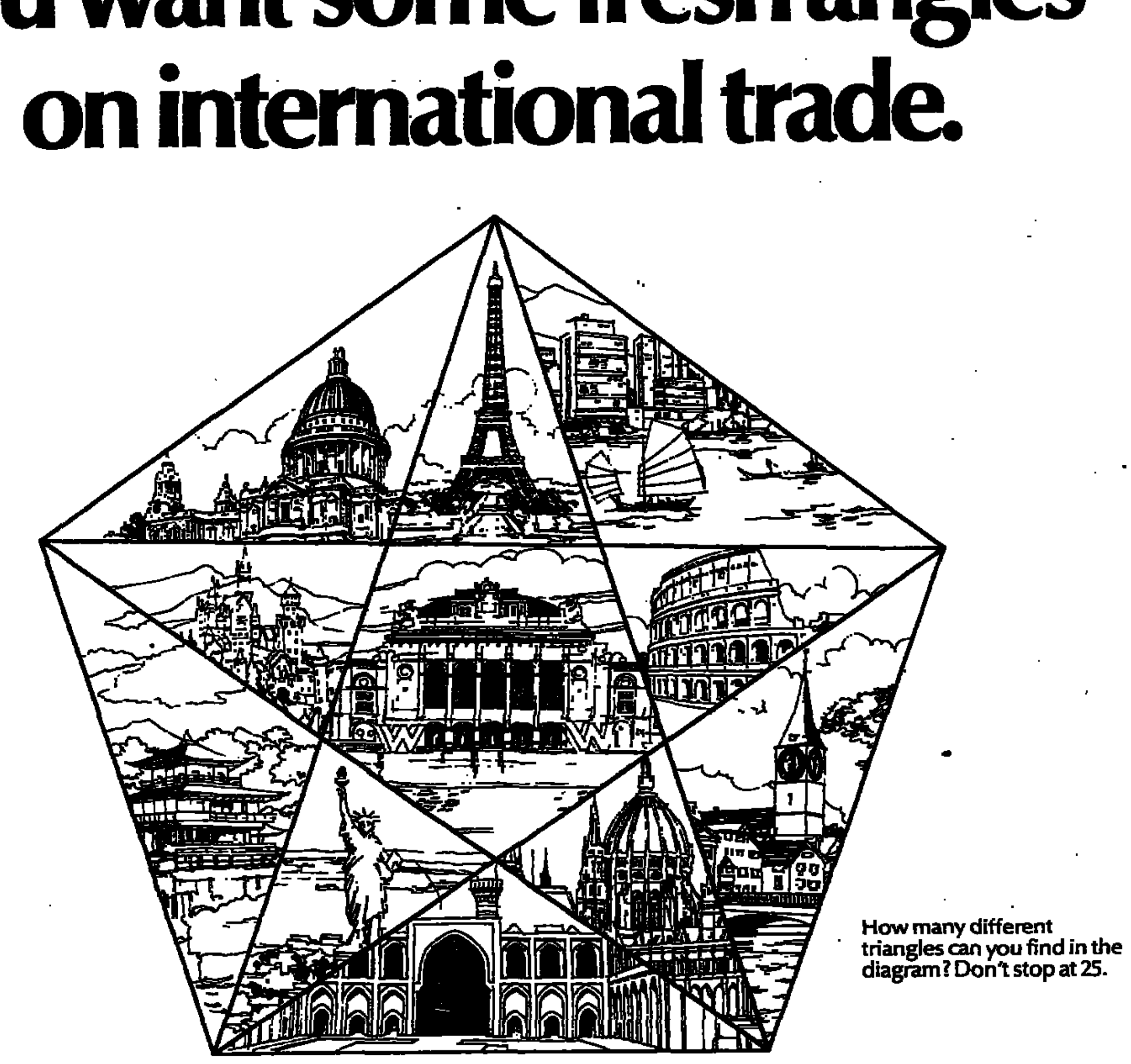
By reading across this table of the May 28, 1979 's closing inter bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centers. These rates do not take into account bank service charges.

	$	£	DM	FF	L.It.	Gldr.	BF com.	SwissF.	Dan.Kr.
Amsterdam	2.099	4.306	109.37 *	47.14 *	0.245	——	6.806 *	120.755 *	38.26 *
Brussels (a)	30.815	63.2825	16.0735	6.932	3.598 *	14.69995	——	17.745	5.627
Frankfurt	1.918	3.9385	——	43.16 *	2.238 x	91.56 *	6.224 *	110.45 *	35.00 *
London (b)					Closed				
Milan	857.20	1,759.50	446.87	192.60	——	408.57	27 802	492.97	156.41
New York (c)	——	2.0527	1.91925	4.4425	N.A.	2.096	N.A.	1.73825	N.A.
Paris	4.44575	9.135	231.87 *	——	5.1935 x	212.02 *	14.434 *	255.92 *	81.29 *
Zurich	1.73715	3.5669	90.6135 *	39 07875*	0.20265	82.95845*	5.636 *	——	31.7027 *
ECU	1.3124	0.640417	2.51982	5.8389	1,124.73	2.75409	40.4943	2.28359	7.16312

(a) Commercial franc. (b) Amounts needed to buy one pound. (c) Amounts needed to buy one dollar. (*) Units of 100. (x) Units of 1,000.

ECU : European Currency Unit, as quoted in Brussels.

Closing rates or official fixings for European centers: 2pm EST rates for New York.



Toronto Stocks

Closing Prices May 25, 1979

Quotations in Canadian funds.
All quotes cents unless marked $

	High	Low	Close	Ch'ge
19850 Abitibi	$18	17⅞	18	
4900 Agnico E	$8¼	8	8⅛	+ ¼
1028 Agra Ind A	$6¾	6½	6¾	
98288 Alta Gas A	$21⅝	21⅛	21½	+ ¼
500 Alta Nat	$55⅛	55⅛	55⅛	+1⅜
200 Algo Cent	$24	24	24	— ¼
13355 Am Banza	$19¼	17⅞	19⅛	+1⅞
550 Andres W A	$14¼	13⅞	14¼	+ ¼
2200 Argus C pr	$15⅝	15⅜	15⅝	+ ¼
1331 Asbestos	$45	44⅝	45	+ ½
15600 Atco A	$22	21¾	21¾	— ¼
16535 BP Can	$23¼	23	23¼	— ⅛
14796 Bank N S	$22⅞	22⅜	22¾	+ ⅛
200 Beth Cop A	$17⅞	17⅞	17⅞	+ ⅛
200 Block Bros	$9¼	9¼	9¼	
1400 Bralor Res	$12¼	12	12¼	+ ¼
625 Bramalea	$19⅞	19	19⅞	+ ⅞
1200 Brenda M	$16½	16½	16½	
4175 BCFP	$21½	21⅛	21½	+ ½
2483 BC Phone	$18	17¾	18	+ ¼
11202 Brunswk	$7⅛	7	7⅛	+ ⅛
200 Budd Auto	$8¾	8¾	8¾	
300 CAE A	$26¾	26¾	26¾	— ¼
14432 Cad Frv	$17	16½	16¾	+ ½
7117 Cal Pow A	$46	45½	46	+ ¼
8760 Camflo	$14⅝	14¼	14⅝	+ ⅜
5950 C Nor West	$10¾	10⅝	10⅝	
1450 C Packrs	$28¾	28½	28½	— ¼
35911 Can Perm	$19	18¾	18¾	+ ⅛
633 Can Trust A	$27	26⅞	26⅞	— ⅝

	High	Low	Close	Ch'ge
680 C Tung	$26¼	26	26	+ ⅜
120 CCablesy A	$20½	20½	20½	
650 Cdn Cel	$9¼	9¼	9¼	+ ¼
100 CGE	$29½	29½	29½	— ⅞
7858 Cl Bk Com	$27	26¾	26⅞	— ¼
23030 Cdn Tire A	$31	30¼	30⅞	+ ½
1550 C Utilies	$19	19	19	
1665 Candel Oil	$38⅜	37½	38¼	+ ¼
8420 Cassiar	$11	10⅝	11	+ ⅜
3760 Celanese	$5⅝	5¼	5⅝	+ ⅛
360 C Holiday I	$9¾	9¾	9¾	
9400 Con Distrb	$10⅝	10⅛	10⅝	+ ¼
17336 Cons Gas	$22	21⅞	21⅞	
5367 Con Fardy	340	325	340	+ 5
500 Conwest	$6	6	6	— ⅛
85200 Coseka R	$9⅛	8⅞	9	— ⅛
1100 Craigmt	$6¾	6⅝	6¾	+ ¼
10437 Crush Intl	$14½	13¾	14¼	+ ¾
3000 Cyprus	$14⅝	14⅜	14⅝	+ ⅛
6146 Daon Dev	$11⅞	11⅝	11¾	
13050 Denison	$22	21½	22	+ ⅜
14100 Dicknsn	$7⅝	7⅝	7⅝	
2536 D Bridge	$34⅝	34	34	+ ⅛
3218 Dofasco A	$35½	35⅜	35⅜	— ⅛
9325 Dom Store	$18½	18¼	18½	+ ½
20 Du Pont	$20⅞	20⅞	20⅞	
500 Dylex L A	$15¼	15¼	15¼	+ ¼

	High	Low	Close	Ch'ge
4900 East Mal	200	192	198	— 2
400 Electhom A	$5⅝	5⅝	5⅝	
425 Emco	$10⅝	10⅝	10⅝	+ ⅛
8775 Falcon C	$7⅛	7	7	— ⅛
20247 Fibre Nik A	$61½	60⅛	61¼	+1¼
2800 Fed Ind A	$7⅛	7⅛	7⅛	
800 Fed Pion	$38¼	37¾	38¼	+ ⅜
4600 Francana	$11	10⅝	10⅞	+ ¼
1200 Fraser A	$15	14⅞	14⅞	— ⅛
500 Fruehauf	$11	11	11	— ¼
612 G M Res	455	455	455	— 5
300 G Distrb A	$8⅝	8⅝	8⅝	+ ⅛
400 G Distrb w	250	250	250	
1600 Gibraltar	$8⅝	8⅛	8¼	
65712 Graft G	$42⅞	42½	42⅞	+ ⅜
2500 Granduc	139	136	139	+ 4
2615 Gt Oil Sds	$15⅝	15½	15½	— ⅛
550 GL Forest	$41¾	41¼	41¾	+ ¼
1074 Greyhnd	$22½	22	22½	+ ½
2600 Hard Crp A	340	340	340	+ 5
8645 Harlequin	$14⅝	14⅜	14⅜	— ¼
1450 Hawker A	$11⅞	11⅝	11⅝	— ⅛
7224 Hayes D	$12⅞	12⅜	12⅜	— ½
9592 H Bay Co	$27½	27¼	27¼	— ⅛
15168 IAC	$17⅞	17⅝	17⅞	
2000 Indal	$15½	15⅜	15½	
100 Indusmin	$20½	20½	20½	+ ½
100 Inglis	$14¼	14¼	14¼	
1500 Inland Gas	$13½	13⅜	13½	+ ⅛
2136 Int Mogul	$6	6	6	— ⅛
39110 Intpr Pipe	$19½	17¾	19¼	+ ⅛
1400 Inv Grp A	$14¾	14¾	14¾	
425 Ivaco A	$15⅞	15¾	15⅞	— ⅛
3075 Jannock	$24¼	23⅞	24¼	+ ⅜
127202 Kaiser Re	$20⅝	19¾	20½	+ ¾
5900 Kam Kotia	410	405	410	+ 5
960 Kelsey H	$25	25	25	
6124 Kerr A A	$9⅝	9⅛	9⅝	+ ⅜
8743 Labatt A	$21¼	20⅝	20⅞	— ¼
100 Lab Min	$40½	40½	40½	
8800 Lacana	$5⅝	5¼	5⅝	+ ⅜
600 LOnt Cem	$5⅝	5⅝	5⅝	+ ⅛
2300 LL Lac	335	330	330	
525 Lob Co A	430	430	430	— 5
164 Lob Co B	415	415	415	
320 Loeb M	$11½	11½	11½	
39342 MICC	$12⅝	11¾	12½	+ ¾
225 Mclan H A	$22½	22½	22½	
11563 MB Ltd	$23⅞	23½	23¾	+ ⅜
850 McGraw H	$9¼	9¼	9¼	
2372 Molson A	$25⅝	25½	25¾	+ ¼
5072 Molson B	$23½	23⅛	23½	+ ½
7666 Moore	$37¾	37⅝	37⅝	— ⅛
17868 Murphy	$17	15¾	17	+1⅛
100 Nat Trust	$22½	22½	22½	— ¼
109741 Noranda A	$41⅜	40¼	40⅞	— ⅝
43373 Norcen	$21⅝	20⅝	21¼	+ ⅝
1020 NTecm B w	$23	22¾	23	
1900 Nowsco W	$30	30	30	+ ½
13100 Oakwood P	$6½	6⅜	6½	+ ⅛
3220 Ocelot B	$14½	14¼	14⅜	— ⅛
11550 Oshawa A	$8⅛	7¾	8⅛	+ ⅜
9650 Pace Pet	$14⅝	13⅝	14⅝	+ ⅜
9900 Pamour A	$6⅞	6¾	6¾	+ ⅛
1810 PanCan P	$50	49⅝	50	+ ½
2 Patino N V	$26¼	26¼	26¼	+2¼
4100 Pembina	$9	8⅝	9	+ ⅜
1025 Petrofina	$31½	31	31½	+ ¼
3740 Peyto Oils	$12	12	12	+ ⅛
3780 Pine Point	$36½	36¼	36¼	— ⅛
32980 Place G	275	266	267	— 8
4337 Placer	$28	28	28	— ¼
4620 Ram	$9¼	9	9¼	+ ½
200 Redpath	$14	13⅞	13⅞	
950 Rd Stenhs A	$9¾	9½	9¾	+ ¼
900 Reichhold	$13	13	13	
2500 Revnu Prp	184	183	183	+ 1
1900 Roman	$27¾	27¼	27⅝	+ ⅜
3500 Rothman	$22½	22¼	22½	
11000 Sceptre	$7⅝	7⅛	7¼	
4200 Scotts A	$12½	12½	12½	
41910 Shell Can	$19½	19	19½	+ ¼

	High	Low	Close	Ch'ge
2745 Sherritt	$10¼	10⅛	10¼	
800 Sigma	$26⅝	26⅜	26⅝	+ ⅜
874 Simpsons	275	270	270	— 5
500 Simpsn S A	$9½	9¼	9½	+ ¼
7475 Slater Stl	$19⅝	19⅛	19⅛	— ⅛
650 Southm	$26	25⅞	25⅞	—1⅛
70300 St Brodcst	$12¼	12	12¼	+ ¼
8990 Stelco A	$29⅞	29½	29⅞	+ ⅜
4075 Steep R	395	395	395	
6300 Sulpetro B	$11⅝	11⅜	11⅝	+ ¼
50 Talcorp A	$10⅝	10⅝	10⅝	— ⅜
608 Teck Cor A	$13⅝	13⅛	13⅜	+ ¼
2458 Teck Cor B	$12⅞	12½	12½	— ⅛
4850 Teledyne	$13	12	13	+1⅛
1703 Tex Can	$64	63½	64	+ 1
500 Thom N A	$16⅝	16⅝	16⅝	
10730 Tor Dm Bk	$23⅛	22⅞	22⅞	+ ⅛
100 Torstar B	$19¼	19¼	19¼	
5325 Traders A	$17⅝	17¼	17⅝	
8235 Trns Mt A	$11⅝	11½	11⅝	+ ⅛
95790 TrCan PL	$21⅝	21¼	21⅜	+ ⅛
5878 Turbo Cl B	$11⅛	10⅝	11⅛	+ ⅝
16786 UGas A	$10¾	10⅝	10¾	+ ¼
5550 Union Oil	$23¼	23	23¼	+ ½
6900 U Keno	$14⅛	14	14⅛	+ ¼
6800 U Siscoe	$10⅛	9⅞	10	
245 Un Carbid	$22¼	22¼	22¼	+ ¼
200 Van Der	465	465	465	+15
14075 Verstl Cor	$17	16⅝	17	+ ½
600 Vestgron	$14	14	14	
7130 Weldwod	$20¼	20¼	20¼	
1100 West Mine	$5½	5⅜	5⅜	— ⅛
32025 Weston	$26½	26¼	26⅜	+ ⅛
7476 Woodwd A	$22¼	22	22¼	+ ¼
14520 Yk Bear	$7¾	7½	7⅝	+ ¼

Total sales 4,998,094 shares

Montreal Stocks

Closing Prices May 25, 1979

Quotations in Canadian funds.
All quotes cents unless marked $

Sales	Stock	High	Low	Clos	Chg.
12249	Bnk Mont	$23⅝	22⅞	23½	+ ⅜
1838	Con Cml	$13	13	13	
1575	Con Bath	$13	12⅞	12⅞	
2750	Dom TxtA	$13⅞	13¾	13⅞	+ ⅛
3868	FCA Int	330	325	325	
15286	Imasco	$41¾	41½	41½	— ¼
208	Power Cp	$26	26	26	— ⅜
1810	RollandA	$ 9⅝	9⅝	9⅝	+ ⅛
4100	Royal Bk	$41⅝	41	41⅛	— ¼
1600	RoyTrstco	$16½	16¼	16½	+ ¼
1277	Utd Asbest	295	290	290	—5
1500	Zellers	$10	10	10	+ ⅛

Total sales 883,422 shares.

Canadian Indexes

May 28, 1979

	Close	Previous
Montreal	256.34	250.28
Toronto	1,519.30	1,502.60

Montreal : Stock Exchange Industrials Index.
Toronto : TSE 300 Index.

Eurocurrency Interest Rates

May 28, 1979

	Dollar	D-Mark	Swiss Franc	Sterling	French Franc
1 M.	10 15/16 - 11 1/16	5 ⅜ - 5 ½	1 ½ - 1 ⅝	11 ⅞ - 12 ⅛	11 - 11 ½
2 M.	10 7/16 - 10 9/16	5 11/16 - 5 13/16	1 ⅝ - 1 ⅞	12 - 12 ¼	10 ¾ - 11 ¼
3 M.	10 ⅞ - 11	5 ⅝ - 5 ⅞	1 11/16-13/16	12 ⅛ - 12 ⅜	10 ⅞ - 11 ⅜
6 M.	10 ¾ - 10 ⅞	6 7/16 - 6 9/16	2 ⅛ - 2 ⅜	11 15/16 - 12 3/16	11 - 11 ½
1 Y.	10 ⅝ - 10 ¾	6 ⅞ - 7	2 13/16-15/16	11 ⅞ - 12 ⅛	11 - 11 ½

International Bonds Traded in Europe

Midday Indicated Prices, May 28, 1979

Dollar Bonds

Amev 8-87	91¾	92¾
Ashland 7½-82	95½	96½
Australia 8¼-83	94½	95½
Australia 8⅝-91	94¼	95¼
Australia 8¼-92	90¾	91¾
BTokyo 7⅝-84	91¼	92¼
Barclays 8½-92	92¼	93¼
BCHyd. 7⅜-85	90¼	91¼
Bell Can 7⅜-87	89¾	90¾
BFCE 8⅜-83	97	98
Brazil 9¼-84	95	96
Brit Gas 9-81	98½	99½
BrokenHill 8-85	92¾	93¾
Cpc Berm. 8¼-84	95½	96½
Cdn NatlR 8⅜-86	91½	92½
Charbongs 8⅜-81	97½	98½
CityInvest 8⅜-84	93¾	94¾
Cons Food 7½-91	86¾	87¾
Conoco 8-86	95	96
Cutler Ham 8-87	91¾	92¾
EEC 8¼-82	96¼	97¼
EEC 7⅜-84	92	93
ECS 8⅜-81	98	99
ECS 8⅜-97	90½	91½
EIB 8¼-83	95¼	96¼
EIB 8-84	93¼	94¼
Elf Aquit. 8¼-85	93	94
EMI 9¼-89	92½	93½
Ericsson 8½-89	92½	93½
Esso 8-86 nov	97¼	98¼
Eurofima 8½-83	97¼	98¼
Fiat 8-82	94½	95½
First Chic 7-80	97½	98½
Gotaverken 8½-87	91	92
Gould 9⅜-83	99½	100½
GulfWestn 8¼-84	93	95
Hamersley 8½-84	96	97
Home Oil 9½-86	97½	98½
ICI 8¼-87	92¼	93¼
ISE Cnda 9-82	97¼	98¼
I.U.Overseas 9-83	96¾	97¾
Kidde W. 8½-85	92½	93½
Kockums 8-83	95½	96½
Manitoba 8⅜-83	95½	96½
Michelin 9¼-86	98	99
Midld Intl 8⅜-86	96	97
Montreal 9¼-83	97¾	98¾
NCBoard 8-87	90¾	91¾
NatWest 9-86	96¾	97¾
NBrunswick 9-83	97½	98½
NBrunswick 8-84	92¼	93¼
NZealand 9¼-82	98½	99½
NZealand 8½-83	96	97
NrsKombk 8½-91	92¾	93¾
Norskhyd 8½-92	90¾	91¾
Norway 8½-81	97	98
Occidental 9⅜-83	98½	99½
Offsh Mln 8¼-85	92½	93½
Ontario 9-83	98½	99½
OntarioHyd 8-87	90¼	91¼
ProvSaskat 8⅜-86	95	96
QuebProv 8½-81	97	98
QuebProv 9-83	98¾	99¾
Ralston 7½-87	90½	91½
SaabScania 8½-89	90¼	91¼
S.A.S. 8-85	92¾	93¾
Shell 8-86	94¾	95¾
Shell 7½-87	92½	93½
Singer 8⅜-82	95	96
Stlnd 8⅜-88	97½	98½
Sweden 8¼-87	91½	92½
SwedStCo. 7⅜-82	94½	95½
TMay 7⅜-87	89¾	90¾
Textron 7⅜-87	98½	91½
Transocean 8-86	95	96
Transocean 7½-87	90¾	91¾
UnOil 7½-87	93	94
Utah 8-87	92¼	93¼
Vwagen 7⅜-87	90	91
Volvo (Mar) 8-87	90½	91½
BroadHale 4⅜-87	71	73
Carnation 4-88	69½	71½
Chevron 5-88	147	149
Chrysler 4⅜-88	65½	67½
Chrysler 5-88	66	68
Coke Bott. 6⅜-93	89	91
Cr Suisse 4¼-91	112	114
CummInt 6¼-86	90	92
DartInd 4⅜-87	79½	81½
EastKodak 4½-86	81½	83½
Ford 6-86	88½	90½
Ford 5-88	79	81
GenElec 4¼-87	75½	77½
GenFoods 4⅜-82	88	90
Gillette 4⅜-82	84	86
Gillette 4⅜-87	72½	74½
GulWestn 5-86	84½	86½
Honeywell 6-86	84	86
ICI 6⅜-97	89½	90½
INA 6-97	92	94
ISE 6⅜-89	86	88
ITT 4⅜-97	72	74
Jusco 6-92	107¼	108¼
Komatsu 7¼-90	131½	132½
MorganJP 4¼-87	90	92
Nabisco 5¼-88	94½	96½
OwensIll 4½-87	101	103
PenneyJC 4½-87	71	73
RCA 5-88	81	83
Revlon 4⅜-83	133	135
Revlon 4⅜-87	114	116
Sperry 4¼-88	94	96
Squibb 4¼-87	80	82
Texaco 4½-88	75½	77½
Texas 7½-93	89½	91½
Tyco 8½-88	100	102
UnCarb 4⅜-82	89	91
WarnLamb 4½-87	73½	75½
WarnLamb 4⅜-88	70	72
Xerox 5-88	73½	75½

Convertible Bonds

Amexco 4¼-87	74	76
Ashland 5-88	122	124
Beatrice 6¼-91	100	102
Beatrice 4½-92	84	86
Beecham 6⅜-92	101	102
Boots 6⅜-93	97	98
Borden 6⅜-91	98½	100½
Borden 5-92	86	88

Bondtrade—Index

Basis Dec. 31, 1966 – 100)

	Med.	Long.
Monday	95.83	88.94
Previous	Closed	Closed

European Gold Markets

May 28, 1979

	A.M.	P.M.	N.C.
London		Closed	
Zurich	272.125	275.875	+5.25
Paris (12.5 kilo)	285.25	285.16	+4.21

Official morning and afternoon fixings for London and Paris, opening and closing prices for Zurich.

U.S. dollars per ounce.

Tokyo Exchange

May 28, 1979

	Price Yen		Price Yen
Asahi Glass	340	Matsu E. Wks	552 XD
Canon	513	Mitsubi Hvy Ind.	161
Dai Nip. Print	572 XD	Mitsubi Corp.	475
Fuji Bank	348	Mitsui Co.	327
Fuji Photo	622	Mitsukoshi	488
Hitachi	262	Nippon Elec.	330
Honda Motor	546	Sharp	460
C. Itoh	385	Sony Corp	2,120
Japan Air L.	3,000	Sumitomo Bank	337
Kansai El. Pwr.	1,030	Taisho Marine	253
Kao Soap	585	Takeda	470
Kirin Brewery	431	Teijin	148
Komatsu	348	Tokyo Marine	534
Kubota	285	Toray	171
Matsu El. Ind.	715	Toyota	916

Bonn Cuts Credit Need

BONN, May 28 (Reuters) — The government's credit uptake under the 1980 budget will fall to around 28 billion Deutsche marks, from about 30 billion DM this year, and to around 20 billion DM in 1983, *Finance Minister Hans Matthoefer* said today.

European Markets

(Yesterdays closing prices in local currencies)

Amsterdam

AKZO	29.30
Albert Heijn	94.00
Algembank	346.50
Amrobank	70.70
A'Dam Rub	51.00
Fokker	22.60
Heineken	85.50
H.V.A.	51.50
Hoogovens	32.40
K.L.M.	107.40
Nat. Nedder	110.40
Pakhoed	44.50
Philips	24.20
Robeco	161.50
Rolinco	131.50
Rorento	121.50
Royal Dutch	122.20
Unilever	122.20
Van Ommer	180.00
VMF-Stork	43.00

Brussels

Arbed	2,580
GBL (B.lamb)	1,730
Cockerill	532
Electrobel	6,800
GB-Inno-BM	2,710
Hoboken	2,950
Petrofina	4,565
Pft. Gevaert	1,274
Soc. Generale	2,095
Solvay	2,555
Un. Miniere	850

Frankfurt

A.E.G.	49.80
B.A.S.F.	135.60
Bayer	135.60
Commerzbank	190.50
Cont. Gummi	58.00
Daimler	288.80
Demag	151.00
Deutsche Bnk	264.20
Dresdner Bnk	202.00
Hoechst	135.00
Hoesch	43.50
Karstadt	302.50
Kaufhof	218.00
K.H.D.	181.00
Lufthansa	95.00
Mannesman	154.80
Metallgesell.	221.00
Neckermann	163.00
RWE.new	169.20
Schering	225.80
Siemens	249.90
Thyssen	90.90
Varta	169.00
Veba	148.10
Volkswagen	228.30

Milan

Bastogi	[illegible]
ERBA	[illegible]
ErcMarelli	[illegible]
Fiat	[illegible]
Finsider	[illegible]
Generali	[illegible]
IFI	[illegible]
Italgas	[illegible]
Italsider	[illegible]
LaRinas	[illegible]
Montedis	[illegible]
Olivetti	[illegible]
Pirelli	[illegible]
Snia Visco	[illegible]

Paris

Air Liquide	[illegible]
Aquitaine	[illegible]
BSN	[illegible]
Carrefour	[illegible]
Cim Lafarge	[illegible]
Cie Bancaire	[illegible]
CFP	[illegible]
CGE	[illegible]
CCF	[illegible]
Ferodo	[illegible]
Gen Occident	[illegible]
Imetal	[illegible]
L Oreal	[illegible]
Mach Bull	[illegible]
Michelin	[illegible]
Moet Henn	[illegible]
Moulinex	[illegible]
Paribas	[illegible]
PUK	[illegible]
Penarroya	[illegible]
Perrier	[illegible]
Peugeot	[illegible]
Rh Poulenc	[illegible]
Sacilor	[illegible]
St Gobain	[illegible]
Suez	[illegible]
Telemecan	[illegible]
Thomson	[illegible]
Usinor	[illegible]

Zurich

Alusuisse	[illegible]
Buehrle	[illegible]
B Boveri	[illegible]
Ciba Geigy	[illegible]
Cr Suisse	[illegible]
Fisher	[illegible]
HofRochN	[illegible]
Nestle	[illegible]
Sandoz	[illegible]
Ste B. Suisse	[illegible]
Sulzer	[illegible]
U.B. Suisse	[illegible]

Paris Commodities

(Figures in French francs per metric ton)

May 28, 1979

	High	Low	Close (Bid-Asked)		Ch
SUGAR					
Jly	945	945	940	947	[illegible]
Aug	956	951	953	957	[illegible]
Oct	N.T.	N.T.	992	996	[illegible]
Nov	N.T.	N.T.	990	1,000	[illegible]
Dec	N.T.	N.T.	1,015	1,025	[illegible]
Mar	N.T.	N.T.	1,045	1,055	[illegible]
May	N.T.	N.T.	1,060	1,075	[illegible]
Jly	N.T.	N.T.	1,075	1,090	[illegible]
85 lots.					
COCOA					
May	N.T.	N.T.	1,505	1,570	[illegible]
Jul	N.T.	N.T.	1,510	1,570	[illegible]
Sep	N.T.	N.T.	1,540	1,550	[illegible]
Dec	1,585	1,580	1,576	1,583	[illegible]
Mar	N.T.	N.T.	1,575	1,600	Unch
May	N.T.	N.T.	1,580	1,600	Unch
5 lots					

International Stock Indexes

	Yest	Prev	High	Low
Amsterdam(1)	89.50	89.60	94.20	88.40
Brussels (2)	130.64	129.30	130.64	107.79
Frankfurt (3)	143.17	142.37	159.63	141.31
London 30	Closed	506.40	558.60	446.18
London 500 (4)	Closed	281.59	307.45	237.06
Milan (5)	76.73	78.67	82.52	55.46
Paris (6)	121.28	120.07	127.35	78.18
Sydney (7)	586.13	582.77	597.68	545.72
Tokyo (8)	455.05	453.93	462.97	435.32
Tokyo (9)	6,332.88	6,313.82	6,341.26	5,925.87
Zurich (10)	326.00	329.00	340.78	308.40

1. Anp-Cbs Ind.; 2. 'Commission de la Bourse' Ind.; 3. Hardy-Sieman Ind.; 4. Financial Times Indexes; 5. Banca Comerciale Italiana Ind.; 6. Agefi Ind.; 7. "All ordinaries" Ind.; 8. First section stock Ind.; 9. Nikkei Dow-Jones Ind.; 10. Swiss Bank Corp. Ind.

World Gas Reserves Doubled in 10 Years

TORONTO, May 28 (AP-DJ) — Proven world reserves of natural gas are estimated at 2,250 trillion cubic feet, double what they were 10 years ago, James Kerr, president of the International Gas Union said today.

However, natural gas reserves are "ultimately finite" and "a dramatic breakthrough in discovery methods" by the beginning of the 21st century will be needed to keep pace with increasing demand, Mr. Kerr, *also chairman of Toronto-*based TransCanada pipelines, said.

enezuela Outlines New Policy of Austerity

By Joseph A. Mann Jr.

RACAS, May 28 (NYT) — zuela's new government has public its first overall outline onomic policy, pledging to l runaway public spending, e its sizable balance-of-pay- deficit, maintain the present of the bolivar and reduce ament involvement in the my.

aking before several hundred zuelan and foreign executives week, Finance Minister Luis to sought to dispel rumors both a possible devaluation valuation of the bolivar and emphatically that the new administration did not plan to institute exchange controls.

He also said that the administration of President Luis Herrera Campins, in office since March 12, would ease the rigid price controls instituted over the last five years and would give greater flexibility to the private sector.

Venezuela ended last year with a $1.7-billion payments deficit, the biggest in its history, a current-account deficit of $6.1 billion, growing foreign debt and escalating levels of official spending and dependence on imports.

Local businessmen have complained bitterly about inflexible price regulation and omnipresent government interference, and foreign investors have criticized Venezuela's strict rules on new foreign capital.

Following five years of free spending, waste and tight government controls, the two-month-old government has promised austerity, an end to corruption and a greater role for business.

Despite the country's increased revenues from petroleum exports — $5.8 billion last year — development efforts by the previous government of President Carlos Andres Perez proved overly ambitious. Mr. Perez's programs were hampered by countless bottlenecks, cost overruns, rampant corruption and shortages of food, manpower and industrial materials.

Mr. Herrera Campins, who said in his inaugural speech that he had inherited "a mortgaged country," found that the Perez regime had not only left a registered foreign debt of $7.41 billion, up more than 50 percent from the previous year, but also an additional — and unannounced — package of short-term foreign obligations estimated at between $5 billion and $7 billion.

Mr. Ugueto, whose ministry is evaluating the overall debt package, firmly denied rumors of plans to alter the value of the bolivar — pegged at 4.3 to the dollar — or of instituting exchange controls. He said the government would seek to remedy economic ills by revising import duties and subsidies, unifying the confusing income-tax system, freeing more items from price controls and putting a rein on official expenditures.

He estimated that public spending this year would reach the equivalent of $25.6 billion, up "slightly" from 1978. The central government alone is planning outlays between 5 and 8 percent greater than the 1978 figure of $12 billion.

The minister said the government would seek to reduce the overall balance-of-payments deficit to between $200 million and $300 million. However, local analysts said this was an extremely ambitious goal, even after new foreign borrowing was included.

Mr. Ugueto stressed the government would make changes in the economy in an orderly fashion and would avoid "precipitous" measures.

Although no details were given on plans for diminishing the official role in the private sector, the Finance Minister made it clear the authorities were willing to back off from previous, heavy-handed official intervention, saying: "We want to give the economic system a chance to perform well or badly on its own. If things go badly, then sanctions will be applied."

Gold Prices Top $275

ZURICH, May 28 (Reuters) — Gold prices rose to a record $275.50-276.25 an ounce, bid-asked, here today in hectic trading, dealers said. Gold opened at $271.25-272 an ounce, up from late Friday's quote of $270.25-$271 an ounce. The sharp rise was due to moderate demand bringing fewer offers in trading thinned by holidays in Britain and the United States, dealers said.

Saudi Budget Increased

JIDDAH, Saudi Arabia, May 28 (AP-DJ) — Saudi Arabia's budget for fiscal 1980 is 160 billion riyals (about $47 billion), up 25 percent from the previous year, King Khaled announced Saturday.

aracas' Oil-Exporting Days Numbered

(Continued from Page 19)

en down to 2.4 MBD. It or- capacity increased to 2.8 by last year, but the state oil pany could not do it. Now the uction of 2.3 MBD is about as as Venezuela can go.

ith this ceiling on output, and its bureaucrats clamoring for to spend, Venezuela has ed into debt and has a growing deficit. With nowhere else to Venezuela has become an ad- e in OPEC of further price in- es and surcharges.

eanwhile, Petroven and its op- g subsidiaries are using prac- y every proven method of sec- ry recovery to get more oil out ed wells. Half the nation's out- results from such measures. ven also is probing thousands et deeper in the established

nezuela's problem is not sim- find more oil. It has to find and medium-weight as two- of its proven reserves are heavy crudes. The need has lled Petroven into a two-year, -million program to drill 40 at wells offshore in the Carib- The first seven have come up

ere is hope of finding up to 12 n barrels of light and medium under the ocean floor. But a years ago there was similar of finding 800 million barrels in southern Lake Maracaibo e only time that foreign com- s have been awarded risk con- to drill here — and they not find commercial quanti- Even if lighter oils are found re, they would not be in pro- on until the late 1980s.

Miracle Needed

acerbating the problem, local ne needs, once insignificant, ake about 15 percent of out- artly due to subsidies keeping prices of gasoline low. This is g Petroven to dip deep into windling reserves of better crudes because the nationalized foreign-built refineries, which are similar to North America's, are not capable of extracting gasoline from the heavier crudes. Petroven is moving ahead with a billion-dollar program to upgrade the old refineries.

If oil is not found offshore, Venezuela may be forced to accelerate development of its final area: the Orinoco "tar belt" (IHT, March 25). Although the lowest estimate puts reserves there at 700 billion barrels, the oil is so heavy that it barely flows. Economical ways would have to be developed to treat it underground with steam or chemicals before it could be pumped out. Even then, expensive pre-refinery processing would be needed.

Most observers believe that the government will have to slash its heavy spending to match a lower level of income in the early 1980s.

Stein Expects Stock Surge If Economic Signals Right

(Continued from Page 19)

million from $20 million at its start in the early 1970s.

The mutual funds are currently sitting on "a big cash position," he said. But those funds that are investing in equities are putting their money in "energy securities," he said. These are companies that will benefit from the on-going energy crisis, either directly such as the major oils, or indirectly, such as Archer-Daniels-Midland, which is producing gasohol, and Sheller-Globe, which is stamping parts for the new small X-body car being produced by General Motors.

Given the low equity positions of institutions as well as individuals, any shift in attitude to buying "could have a dramatic effect on prices," he said, although he conceded there were no signs of this yet.

[Illustrating the outlook among Dreyfus money managers, Dreyfus Fund headed the list of U.S. mutual funds bears in the first quarter this year with net selling of $179.7 million, AP-Dow Jones reported. At the same time, it boosted its liquidity by $138.6 million to $166.9 Million, or 11.7 percent of total assets.

[Kenneth Oberman, Dreyfus Fund vice president, said: "We think the outlook is extremely unclear as it is very difficult to make any predictions about interest rates, the direction of the economy and areas of governmental policy both monetary and fiscal. Right now we see no answers and won't move out of reserves until these factors become clearer."]

Mr. Stein added that "European money managers say they are waiting for U.S. institutional investors to lead the way," while "U.S. managers are waiting" for signs that the economy is well directed before they move.

"One day, they will all move together," pushing up prices from today's bargain levels, he said.

Mr. Stein did, nonetheless, indicate that he views the current situation as an opportunity to begin selective buying.

Concerning the growing trend among U.S. money managers to invest in foreign markets, a direction in which the Dreyfus group was a leader, Mr. Stein compared it to fighting last year's war. The European markets have peaked, he said, and the price-earnings multiples in Japan are too high. "We're moving toward a period where we ought to focus more seriously on the U.S. market."

Progress Report 1978
Hessische Landesbank – Girozentrale –

Another year of quality growth

For Hessische Landesbank, one of Germany's top ten banks, 1978 was another year of progress toward achieving two major longer term objectives: selective growth and higher earnings. The balance sheet total advanced to DM 45 billion, an increase of 5.7%, while profits showed a marked improvement over 1977.

International business again made a positive contribution to the Bank's overall results in 1978. Although tempering growth in tandem with judicious risk assessment, the Bank increased its foreign lending by 25% with emphasis on DM loans for exports, particularly buyers' credits.

Results in foreign commercial business were above the nationwide average, which stemmed principally from upgraded client service facilities, an expanded correspondent network, and closer relations with foreign banks.

Uncertainties in currency values stimulated brisk foreign exchange activity on behalf of clients seeking to cover exposures. Securities business was strengthened in all sectors, especially in placement capacity and trading.

Relative to market conditions, the Bank also maintained its position in international syndicate business, participating in 81 Euro-DM issues, 78 publicly offered foreign currency issues, 7 private placements, and 6 share placements of foreign companies.

Banque Continentale du Luxembourg S.A., a 50% Hessische Landesbank subsidiary offering comprehensive Eurobanking facilities, improved its business volume by 27%.

Headquartered in Frankfurt, Hessische Landesbank is a government-backed universal bank concentrating on wholesale banking and medium to long-term lending. The Bank's services are tailored for large domestic and international corporations, foreign governments and other financial institutions, and it also acts as a banker to the State of Hesse and performs clearing functions and other centralized services for Hesse's 52 Sparkassen.

With the foundation laid for continued quality growth and profitability, Hessische Landesbank can again look forward to another successful year.

For a copy of our 1978 Annual Report or further information, please get in touch with:

Hessische Landesbank
– Girozentrale –
Junghofstrasse 18–26
D-6000 Frankfurt/Main
Telephone: (0611) 132-1
Telex: 0411333

Financial Highlights DM million

December 31	1977	1978
Business volume	44,356	46,974
Balance sheet total	42,610	45,032
Total credit volume	34,214	36,212
Short-term assets	8,704	9,630
Due from banks	7,244	8,062
Due from customers	1,460	1,568
Long-term lending	22,060	23,359
Lending to banks	2,511	3,090
Lending to customers	19,549	20,269
Trustee business	5,292	5,449
Short-term liabilities	8,987	10,201
Long-term liabilities	4,069	5,476
Bonds issued	19,909	19,485
Capital and reserves	871	936

Helaba Frankfurt
Hessische Landesbank -Girozentrale-

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Rates valid through August 31, 1979.

29-5-79

THESE ARE THE SPECIAL RATES AFTER REDUCTION OF THE INTRODUCTORY DISCOUNT.

		12 months	6 months	3 months
Aden (air)	$	228.00	114.00	63.00
Afghanistan (air)	$	228.00	114.00	63.00
Africa, Francophone (air)	$	145.00	72.50	40.50
Africa, Others (air)	$	228.00	114.00	63.00
Algeria (air)	$	145.00	72.50	40.50
Australia (air)	$	292.00	146.00	81.00
Austria	Sch.	2,100.00	1,050.00	580.00
Bahrain (air)	$	228.00	114.00	63.00
Belgium	B.Fr.	4,050.00	2,025.00	1,125.00
Burma (air)	$	273.00	136.50	75.00
Bulgaria (air)	$	145.00	72.50	40.50
Canada (air)	$	228.00	114.00	63.00
China (air)	$	273.00	136.50	75.00
Cyprus (air)	$	145.00	72.50	40.50
Czechoslovakia (air)	$	145.00	72.50	40.50
Denmark (air)	D.Kr.	660.00	330.00	180.00
Egypt (air)	$	171.00	85.50	47.00
Ethiopia (air)	$	228.00	114.00	63.00
Finland (air)	F.M.	600.00	300.00	165.00
France	F.F.	520.00	260.00	145.00
Germany	DM	278.00	139.00	75.00
Great Britain	£St.	39.00	19.50	10.50
Greece (air)	Dr.	4,200.00	2,100.00	1,170.00
Hong Kong (air)	$	273.00	136.50	75.00
Hungary (air)	$	145.00	72.50	40.50
India (air)	$	228.00	114.00	63.00
Indonesia (air)	$	273.00	136.50	75.00
Iran (air)	$	171.00	85.50	47.00
Iraq (air)	$	171.00	85.50	47.00
Iceland (air)	$	145.00	72.50	40.50
Ireland	£Ir.	39.00	19.50	10.50
Israel (air)	$	171.00	85.50	47.00
Italy	Lire	91,200.00	45,600.00	25,000.00
Japan (air)	$	273.00	136.50	75.00
Khmer Rep. (air)	$	273.00	136.50	75.00
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Pakistan (air)	$	228.00	114.00	63.00
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Switzerland	S.Fr.	300.00	150.00	82.00
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Tunisia (air)	$	145.00	72.50	40.50
Turkey (air)	$	145.00	72.50	40.50
United Arab Emirates (air)	$	228.00	114.00	63.00
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(Continued from Back Page)

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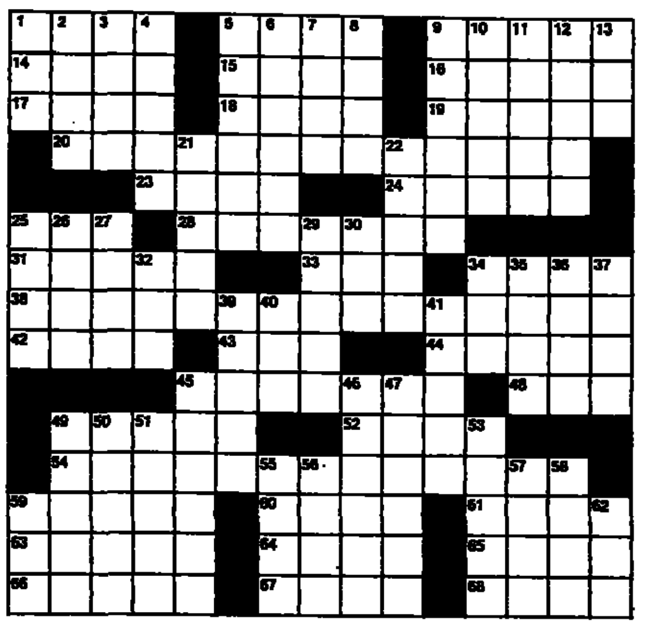
CROSSWORD

By Eugene T. Maleska



ACROSS

1 "Too bad!"
5 Couple
9 Gnat
14 Lancaster
15 Augury
16 "There was —— woman . . ."
17 Most populous continent
18 —— facto
19 Dome-shaped house
20 Incredible
23 Standoffs
24 Drinks served in steins
25 Wire measure
28 The Ancient of Days
31 Notched, as leaves
33 Shepherded
34 Relating to aircraft
38 Shore-dinner tidbit
42 Pony up
43 Frequent follower of long
44 Encampment spot
45 Field laborers
48 Pen
49 Corals' creation
52 Dedicated
54 Off target
59 The stock in some card games
60 Dolt
61 One of Byron's names
63 Turn away
64 Touch upon
65 Part of a West Pointer's garb
66 In disorder
67 Piscataway five
68 Exhale

DOWN

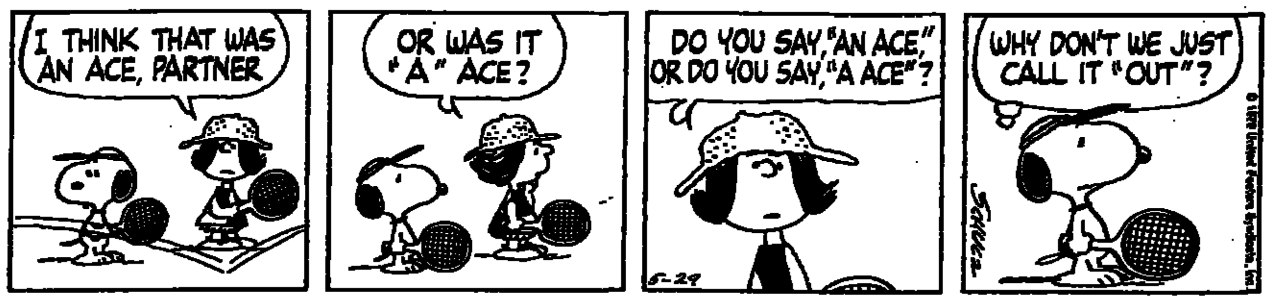
1 Arabian garment
2 Succulent
3 Highlight at La Scala
4 Word on a maze puzzle
5 Dawdle
6 Levy
7 Loch ——
8 "By their fruits ye shall —— them"
9 He wrote "The Prisoner of Sex"
10 Fireplace
11 Sorrow
12 Blushes or flushes
13 Ancient Tokyo
21 Cuts into cubes
22 Domicile
25 Flattop of the Southwest
26 Symbol of endurance
27 Garret
29 Grant
30 Monogram of a British soldier in Arabia
32 Agathe or Thérèse
34 Feign
35 Ages
36 Absorbed
37 Mind
39 Hunter's cry
40 Self-esteem
41 Dungaree, if blue
45 Horn of ——
46 Elephant keeper and driver
47 Sports contests
49 "Oh, lift me as —— . . .": Shelley
50 Mah-jongg pieces
51 Bouquets
53 Cotillion
55 Custard pie
56 Start of a Hamlet soliloquy
57 Range
58 Military hat
59 Cap for Jock
62 Assign, as a contract

WEATHER

	C	F			C	F	
ALGARVE	17	63	Cloudy	MADRID	24	75	Overcast
AMSTERDAM	17	63	Cloudy	MIAMI	30	86	Cloudy
ANKARA	23	73	Cloudy	MILAN	24	75	Fair
ATHENS	25	77	Fair	MONTREAL	14	57	Cloudy
BEIRUT	24	75	Fair	MOSCOW	27	81	Fair
BELGRADE	28	82	Fair	MUNICH	19	66	Cloudy
BERLIN	18	64	Cloudy	NEW YORK	20	68	Cloudy
BRUSSELS	19	66	Cloudy	NICE	20	68	Cloudy
BUCHAREST	20	68	Cloudy	OSLO	15	59	Overcast
BUDAPEST	20	68	Cloudy	PARIS	20	68	Fair
CASABLANCA	21	70	Overcast	PRAGUE	19	66	Cloudy
COPENHAGEN	15	63	Cloudy	ROME	25	77	Fair
COSTA DEL SOL	21	70	Overcast	SOFIA	25	77	Fair
DUBLIN	13	63	Overcast	STOCKHOLM	19	66	Showers
EDINBURGH	10	50	Rain	TEHRAN	31	88	Fair
FLORENCE	26	79	Fair	TEL AVIV	28	82	Mist
FRANKFURT	17	63	Cloudy	TOKYO	23	73	Fair
GENEVA	17	63	Fair	TUNIS	27	81	Fair
HELSINKI	21	70	Fair	VIENNA	21	70	Fair
ISTANBUL	22	72	Fair	WARSAW	20	68	Overcast
LAS PALMAS	21	70	Cloudy	WASHINGTON	19	66	Cloudy
LISBON	20	68	Overcast	ZURICH	17	63	Fair
LONDON	14	63	Rain				
LOS ANGELES	20	68	Cloudy				

(Yesterday's readings U.S. and Canada at 1700 GMT; Los Angeles at 2000 GMT; all others at 1200 GMT.)

PEANUTS



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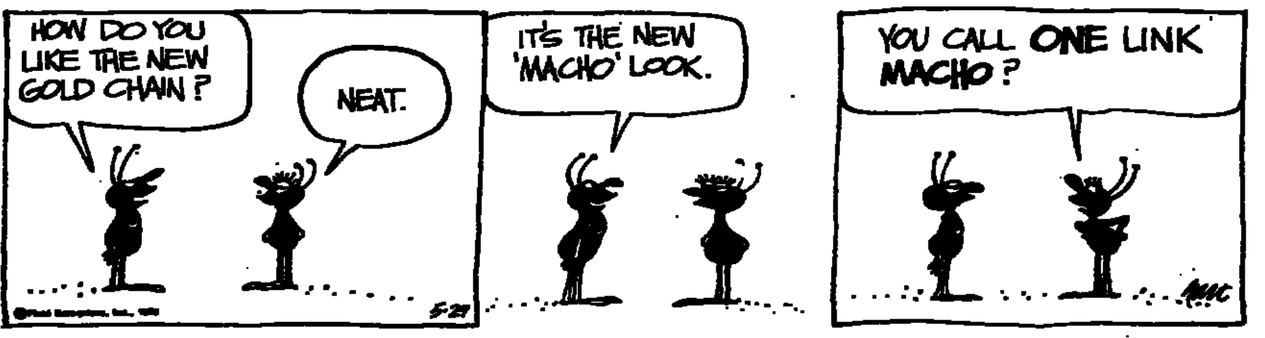

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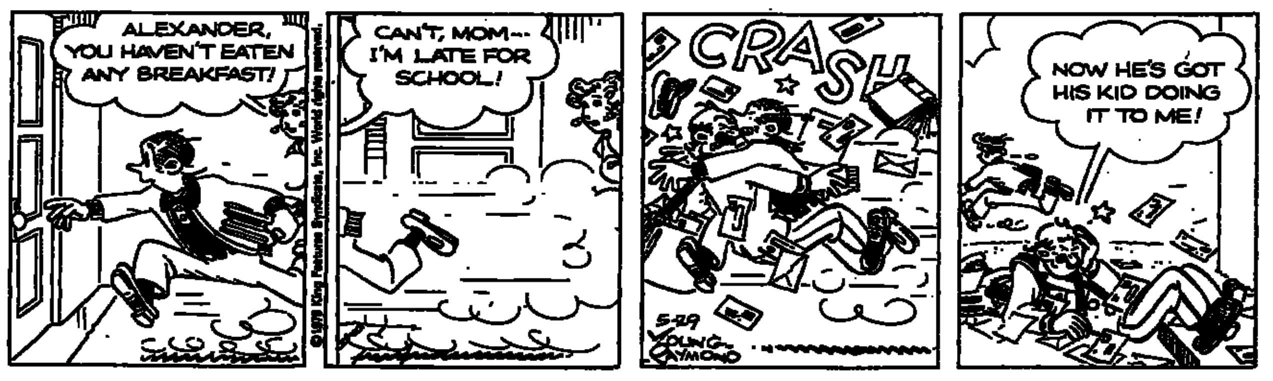

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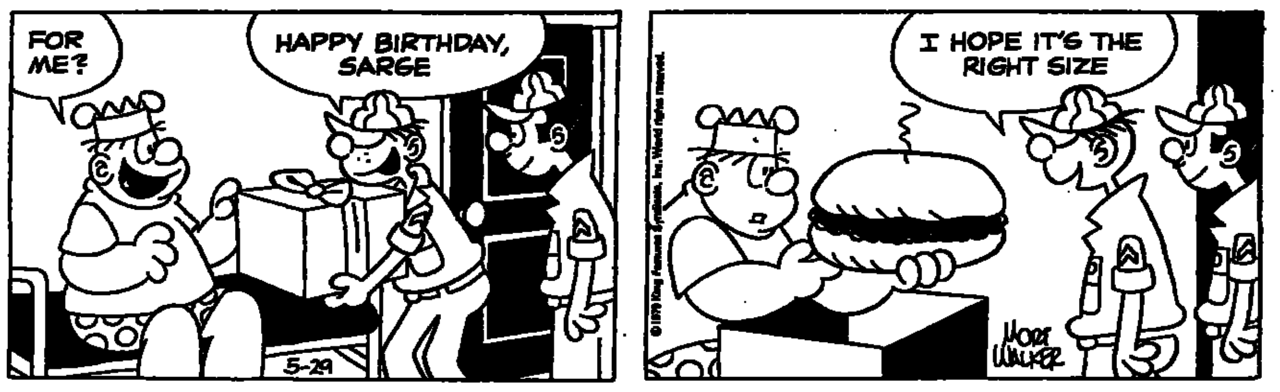
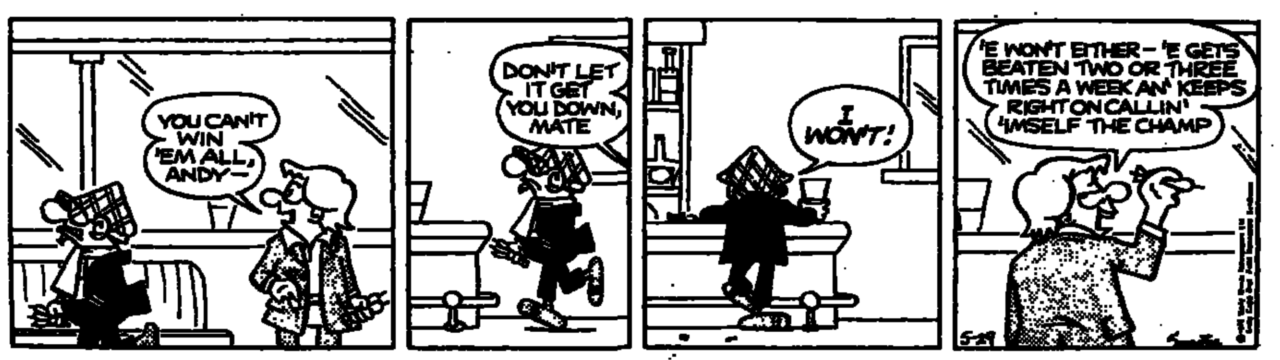


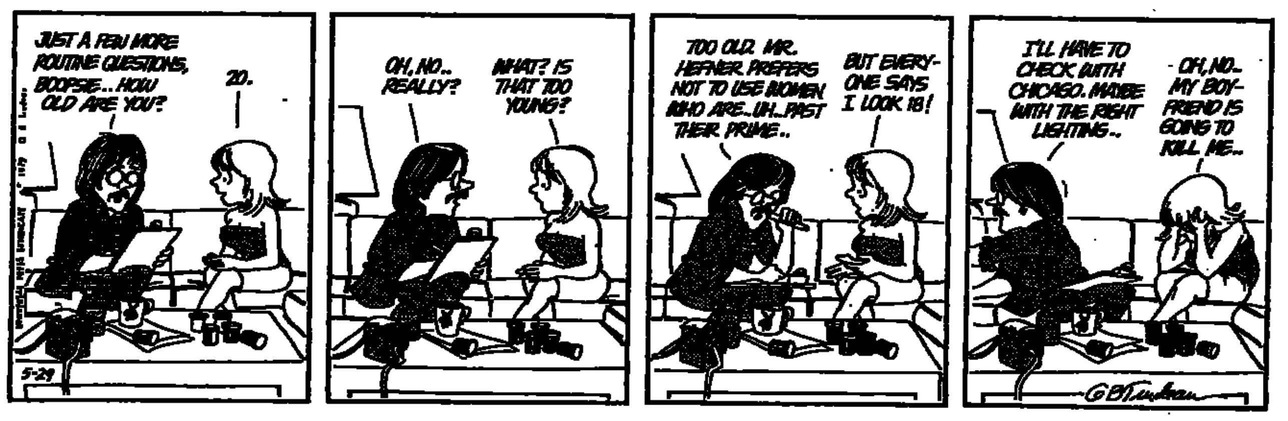
ANDY CAPP



WIZARD of ID

REX MORGAN

DOONESBURY



JUMBLE THAT SCRAMBLED WORD GAME

by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

GYDUP ☐☐○☐☐

BORNI ☐☐○☐○

GALUPE ☐☐☐☐○○

CAPALA ☐○☐☐☐☐

WHAT SOME SO-CALLED "PACKAGE" TOURS COST THESE DAYS.

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: A "○○○○○○○"

(Answers tomorrow)

Yesterday's | Jumbles: GUILT BROIL FLABBY CHROME
Answer: When an effort to charge is made, he produces his pass—A BULLFIGHTER

DENNIS THE MENACE

"WHY are you kicking my door?"

"Temp'rary unsanity?"

"Registered as a newspaper at the Post Office"
"Printed in Great Britain"

BOOKS

THE RISE OF THEODORE ROOSEVELT

By Edmund Morris. Coward, McCann & Geoghegan. Illustr 886 pp. $15.95.

Reviewed by Christopher Lehmann-Haupt

SO STIRRING, so dramatic is Edmund Morris' biography, "The Rise of Theodore Roosevelt," that one is tempted to speculate what an easy book it must have been to write. All Morris had to do was to string the anecdotes together. Theodore, the sickly child, promising his father through clenched teeth, "I'll make my body." T.R., the driving young man, pushing that body beyond endurance in the Dakota badlands and muttering to himself, "By Godfrey, but this is fun." "Teethadore," with gleaming, snapping incisors, tracing down grizzly bears and corrupt machine politicians. Lt. Col. Roosevelt leading the charge up San Juan Hill, "The wolf rising in his heart." How could anyone, given such an outsized, many-sided character, make of his life a dull biography?

Well, no one will accuse Morris of underplaying the drama of Roosevelt's career. In fact, he skims lightly over its quieter passages and rushes from peak of activity to peak, which, if anything, heightens the impression of Roosevelt's hyperkinesis. He refuses to get mired in technical explanations, such as an adequate account of William Jennings Bryan's crusade for free silver would have entailed. And he's not above the sort of dramatic flourish that involves describing a certain geographical entity in Cuba and then concluding with the one-paragraph announcement: "The ridge's name was San Juan."

Still, this irresistible biography is a lot more than a string of dramatic anecdotes. For example, there's the magnificent prose picture of the disastrous Western winter of 1886-87, with its climactic description of a flood of cattle carcasses being carried along by the long-awaited spring thaw. This catastrophe did touch Roosevelt's life obliquely; by wiping out 65 percent of his livestock, it helped to discourage a career in ranching that might have diverted him from his political destiny.

But far more important to the book is the vivid picture it gives of the raw, untamed aspect of the American continent; which influenced Roosevelt's imagination and historical vision far more powerfully than it did his practical plans. Time and again, Morris seizes such relatively minor incidents and blows them up to fill the imaginative landscape of his study.

Or consider some of the ways he presents Roosevelt's character. Describing young Theodore's shattered response to his father's sudden death in 1878, Morris mentions "terror," "nostalgia" and "longing" as the "troika" that ruled T.R.'s emotions. Then repeatedly throughout the remaining 600 pages he refers back to that pull toward "nostalgia" that, he says, his subject had constantly to master. But curiously enough he never offers us concrete instances of this tendency, except by referring in rectly to certain diary entries t T.R. made at the time of father's death. Indeed, the impr sion the narrative gives us, Roosevelt is quite the opposite of a man continuously in ac and always looking ahead.

Yet the effect of these repe references to "nostalgia" is to deeper perspective to Roosevelt a man of action — to suggest, wi out making too much of it, that of the purposes of all his activi was to counteract an inclination dwell in the past, just as the pu pose of T.R.'s compulsion to physical risks must surely been to challenge and overwhe the side of him that still felt we and afraid. Thus, by commen without pausing to analyze, Mor sustains the illusion of the man action without contravening subject's deep complexity.

What does the total picture Roosevelt add up to? Again, M ris' refusal to interpret analytica pays rich dividends. We get t the many contradictory sides Theodore Roosevelt — the killer big game and the passionate co servationist; the indefatigable wr er of historical potboilers and scholar who produced the defi tive naval history of the War 1812; the sentimental family m and the tub-thumping advocate imperialism — the list could go forever. Yet because Morris kee his distances and submerges picture of Roosevelt in carefu documented fact, his portrait mains alive and believable, a never deteriorates into mere thes

Naturally one wonders what s of thesis Morris would have writ had he been inclined to do so. As white man born in Nairobi, Ken in 1940 (when the region was stil British colony), does he have a bi toward or against the man he a pears to credit (blame?) for setti America on the course of imperi ism? Is it significant that he hol Roosevelt so largely responsible f America's entry into the war wi Spain or with Cuba and for the a nexation of the Philippines? Does betray Morris' disapproval th toward the end of this first volu he seems to play up Roosevel egotism and tendency to identi himself with America?

We will probably not find o the answers to such questions. B for the time being, we can q our curiosity over them among t many reasons for looking forwa to the second volume of this wo derfully absorbing biography.

Christopher Lehmann-Haupt is book reviewer for The New Yo Times.

Solution to Previous Puzzle

L	E	A	F	■	S	P	R	A	G	■	S	T	E	W
O	R	S	O	■	A	G	O	R	A	■	T	H	E	O
C	O	S	M	O	N	A	U	T	S	■	E	R	L	E
O	S	T	E	N	D	■	T	I	M	E	L	E	S	S
■	■	■	N	E	E	R	■	E	A	R	L	E	■	■
L	I	T	T	O	R	A	L	■	S	E	A	B	E	E
L	O	R	E	N	■	D	I	S	K	S	■	E	L	L
A	D	A	R	■	O	A	T	H	S	■	R	A	I	L
M	I	D	■	S	C	R	E	E	■	T	O	R	T	E
A	C	I	D	I	C	■	R	E	C	E	S	S	E	S
■	■	■	T	E	L	I	C	■	R	U	N	E	■	■
E	P	I	S	O	D	I	C	■	R	O	W	E	N	A
B	O	O	P	■	E	L	E	C	T	R	I	C	A	L
A	N	N	O	■	M	I	N	A	S	■	N	O	T	A
N	E	S	T	■	T	A	T	T	Y	■	E	N	O	S

Viking Coinage Found in York

YORK, England (Reuters) — Ar chaeologists have found a perfe impression of two 10th-centur coin dies in a Viking workshop he — the first proof of an early Viki mint in Britain.

The impression, on a small pie of lead, shows the two sides of a Anglo-Saxon penny. On one side a cross and the Latin words Eadwi Rex, the king who was on the Eng lish throne from 955 to 959. Th other side carries the name of th York minter responsible for th dies — Frothric.

The find has caused exciteme because records had shown th there were Viking mints in Britai but no proof had been found.

BRIDGE

By Alan Truscot

There are several oddities about a Chinese finesse. It is not a finesse, it is not Chinese and Deng Xiaoping, Peking's senior deputy prime minister and the only known Chinese bridge player, has probably never heard of it.

If you lead an unsupported queen toward an ace in the dummy, the queen cannot, in theory, win the trick. But in practice, it will do so occasionally, because your left-hand opponents withholds his king in the belief that you have the jack.

In this crude form, the Chinese finesse rarely succeeds. But when smaller cards are involved, a shrewd declarer can sometimes take advantage of an unwary defender.

South opened the bidding with one heart, feeling that his distributional strength was sufficient compensation for his high-card weakness. And his subsequent bidding was equally aggressive.

The two no-trump response, by partnership agreement, showed a hand worth a forcing raise in hearts. South had an ideal hand for Blackwood and jumped confidently to four no-trump. The chance that North held only one ace was very slight in view of the failure of East-West to enter the auction.

A five-club response to Blackwood almost always shows a lack of aces. But it can also mean a complete collection and did so here.

South read this correctly and jumped to seven hearts: There was virtually no way North could have a forcing raise in hearts lacking all the aces and the cards South could see in his hand.

Seven hearts is an excellent contract, but it was unmakable as the cards lay. With or without an opening club lead, South is due to be defeated by the bad club break.

East attempted to indicate h desire for a ruff by doubling seve hearts. This was a Lightner doubl and West should have worked o that a club lead was called for. H did not understand the messag but South did. He won the di mond lead in dummy, drew trump ending in his hand, and led the clu eight.

When West routinely played lo South played low from the dumm bringing off an unusual version the Chinese finesse. He was the able to continue clubs and event ally ruff out the club queen to ma the doubled grand slam.

Notice the crucial importance the club seven. If South had he that card, his play of the eig would have been decisive. As was, West could and should hav played the nine on the eight, but was not expecting his opponent take a Chinese finesse.

NORTH
♠A654
♡A1043
◇A85
♣A4

WEST
♠KJ83
♡6
◇K92
♣Q9753

EAST
♠Q1092
♡J95
◇QJ10763
♣—

SOUTH (D)
♠7
♡KQ872
◇4
♣KJ10862

Both sides were vulnerable. The bi ding:

South	West	North	Eas
1♡	Pass	2N.T.	Pas
4N.T.	Pass	5♣	Pas
7♡	Pass	Pass	Dbl
Pass	Pass	Pass	

West led the diamond two.

Coast to Victory

Sonics Lead, 2-1, In Finals in NBA

By Paul Attner

SEATTLE, May 28 (WP) — Washington's playoff-long scoring risis in the back court hit rock bot- om here yesterday as the Seattle uperSonics coasted to a methodi- al 105-95 triumph and a 2-1 lead n the National Basketball Associa- ion championship series.

Gus Williams scored a game- igh 31 points, including 14 in the hird quarter, to lead Seattle.

With their guards struggling to nake even open layups, the Bullets lunged to a season-low shooting ercentage and the SuperSonics arely needed the double-teaming, rapping defense that befuddled Washington in the second game of he best-of-seven series.

Instead, Seattle let the Washing- on guards shoot. Almost 80 per- ent of the time they missed, giving he Sonics more than enough hances to build big leads.

The boisterous Kingdome crowd f 35,928, third largest in playoff istory, enjoyed almost every minute of the one-sided affair. The Bullets failed on a bundle of open opportunities. They shot 33 percent for the game (their previous low was 36 percent in January).

The Bullet performance for the first 31 minutes bordered on inept. The team made only 17 or its first 71 shots (22 percent), with the five guards hitting 4 of 27. For a 10-minute stretch during the middle of the game, Washington made three of 26 shots while Seattle expanded a 6-point lead to 17.

Excluding Bobby Dandridge, who was moved back out of the forecourt, guards shot 8 of 35 for 19 points. While at guard, Dandridge made 5 of 11 attempts, scoring 10 of his 28 points.

With Elvin Hayes able to put in only 5 of 20 shots en route to a 19-point, 14-rebound game, the Bullets didn't have enough firepower to cope with the quick Sonics. Seattle got enough points from Williams, Dennis Johnson (17 and 9 assists) and Fred Brown (16 in 10 minutes) to roll it up.

That was too much of a margin for Wes Unseld to overcome despite a 23-point, 14-rebound, 4-assist effort.

"Unseld carried them, he kept them in the game," Paul Silas of the Sonics said. "He's the smartest small center to ever come down the pike in this game. If it wasn't for him, we would have won by 20."

NBA Playoffs

Championship Series
(Best of Seven)
(Seattle leads series, 2-1)
lay 20—Washington 99, Seattle 97
lay 24—Seattle 92, Washington 82
lay 27—Seattle 105, Washington 95
lay 29—Washington at Seattle
une 1—Seattle at Washington
June 3—Washington at Seattle
June 6—Seattle at Washington
If necessary

Watson Wins Everything But His Peers' Respect

By Gordon S. White Jr.

DUBLIN, Ohio, May 28 (NYT) — Tom Watson, who is setting a ecord pace for money earnings in olf for the second successive year, asily won the $54,000 top prize in e fourth annual Memorial Tour- ament at Muirfield Village's diffi- ult golf course yesterday.

Shooting a 71 for a 72-hole total f 285, three under par, Watson eat Miller Barber by three shots in tournament made soggy through- ut from heavy rains in the early oing. Watson, however, moved nto the lead when he shot a 69 in riday's second round, during the vorst cold and rain of the competi- ion.

From that point, no one could atch Watson, who was the only olfer to finish four rounds under 88, even par. Barber shot a 70 yes- rday to finish at 288.

Fourth of the Year

Watson's victory, his fourth this ear, increased his 1979 earnings to 353,874, putting him just $8,555 hort of the one-year money record e set last year when he won five imes and made $362,429.

The Memorial was Watson's 3th tournament this year. He lans to play in 11 or 12 more vents so the 29-year-old from ansas City is almost a sure bet to arn more than $400,000 this year nd he could easily go over the 500,000 mark.

Watson has won the Heritage, the Tournament of Champions, the Byron Nelson Classic and the Memorial so far this year. After eight years on the PGA Tour he has a career total of $1,555,265.

Despite all the money he has won, many are reluctant to put Watson on a level with Arnold Palmer, Jack Nicklaus, Gary Player and the other superstars of the sport just yet, apparently feeling that Watson must play winning golf a bit longer and win some more major tournaments.

Pointed Comment

"A measure of a golfer's status is taken over more than three years," Nicklaus said. Watson has been the top money-winner for the last two years and will probably repeat in 1979.

"I think he will surely get there," Nicklaus said. "But Gary Player, Lee Trevino, Arnold Palmer and others did it for many more years. Is Johnny Miller one of them? He was the best for just a short time."

Watson has won only three major tournaments — the 1977 Masters and the 1975 and 1977 British Opens. Nicklaus has a record 17 major victories and Palmer captured four Masters, a pair of British Opens and a U.S. Open. Watson may have to win a U.S. Open title to be accepted as the next king of golf, and he will get that chance in his next outing, the 1979 Open at Inverness in Toledo, Ohio, in three weeks.

No Surprises in Tennis As French Open Starts

PARIS, May 28 (AP) — The rench Open tennis championships egan today on the famed old clay ourts of Roland Garros Stadium vith Tim Gullikson, Bill Scanlon, at Dupre, Arthur Ashe and Mike ahill all winning in straight sets.

Gullikson, the left-hander of a et of twins, sailed past Jorge ndrew, 6-4, 6-3, 6-1, Scanlon owned Rick Fagel, 6-4, 6-3, 6-2, Dupre needed a tiebreaker in the hird set before overcoming Anto- io Munoz, 6-4, 6-4, 7-6, Ashe de- eated Jose Soler, 6-4, 6-2, 6-3, and ahill beat Belus Prajoux, 6-1, 6-3, -4.

The stars began arriving from the talian championships in Rome, here Vitas Gerulaitis won the tle, to find a new-look Roland arros, with smart new seats round the center court and a foun- ain where one of the outer courts sed to be.

The tournament is scheduled to last two weeks. The slow red clay surface, where players do a lot of running about and retrieving, is a good toughening ground for Wimbledon next month. Wimbledon is played on grass, a fast surface.

In other first-round matches, Gianni Ocleppo beat Georges Goven, 6-4, 4-6, 6-2, 7-5; Kim Warwick beat Andreas Maurer, 6-1, 6-1, 7-6; Chris Lewis beat Ivan Molina, 7-6, 2-6, 6-1, 6-3; Victor Amaya beat Jan Norback, 6-4, 7-6, 7-5; Brian Gottfried beat Rejean Gendis, 7-5, 6-2, 6-4, and Rolf Gehring beat Joao Soares, 6-4, 6-2, 6-7, 6-2.

Sale of Lakers Is Reported

NEW YORK, May 28 (UPI) — ack Kent Cooke has sold the Los ngeles Lakers of the National asketball Association, the Los ngeles Kings of the National lockey League and the Forum in nglewood, Calif., to a California eal estate executive for about $68 illion, it was reported today.

According to an article in The lew York Times, the new owner of he properties is Dr. Jerry Buss, nd contracts between Cooke and uss are believed to have been gned last week.

Cooke's attorney, however, de- ied that the sale had been com- leted, and Buss could not be eached for comment.

li to Visit Paris

PARIS, May 28 (Reuters) — luhammad Ali will fight a five- ound exhibition against Jimmy llis here June 11, it was an- unced today.

Associated Press

Dennis Johnson of the Seattle SuperSonics pulls in a rebound despite the efforts of Wes Unseld of the Washington Bullets. The Sonics won their second game of the NBA championship series.

When Baseball Was Flied Out

By Red Smith

NEW YORK, May 28 (NYT) — Sometimes it seems that the New York Mets and their customers and the newspaper stiffs who cover their games enjoy less than perfect rapport but they do have one thing in common: they are all too young, their memories are too short. Otherwise they would not have regarded it as a phenomenon when a game with the Pittsburgh Pirates was fogged out in Shea Stadium the other night.

To be sure, the circumstances were not usual. The score was tied when Joel Youngblood opened the bottom of the 11th inning with a fly to left that nobody could see. Bill Robinson, the Pirates' left fielder, stood with hands on hips until the ball dropped about 30 feet to his left.

By the time Omar Moreno, the center fielder, found the ball Youngblood was on third base with a triple. At that point the umpires suspended play for an hour and 18 minutes. At 12:15 a.m. they declared it a suspended game to be played over in its entirety.

In the past, games in Shea have been curtailed by rain, wind, wet grounds, cold, and light failure at night but this was the first fog-out in anybody's memory. Still, it wouldn't have seemed so bizarre if the players, umpires, fans and writers were old enough to remember the night the New York Yankees were flied out in Cleveland. Bugged out, you could say.

Villain of the piece was a large May fly with a soft body of brown or yellow about an inch and a quarter long, membranous, net-veined wings, short feelers and two or three filaments for a tail. He belongs to the order of Ephemerida, which was formerly included in the Neuroptera or Pseudoneuroptera but people who know him personally call him by one of several names, depending on where he is encountered.

In and around Green Bay, Wis., he is known as the Green Bay fly. In Cleveland and Detroit he is called the Canadian soldier and in Windsor, Ont., they know him as the American soldier.

Although the creature's physical charms are negligible and his personality a washout, boy Green Bay flies must be attractive to girl Green Bay flies because they have billions of children. Outside of their own kind, they are loved only by smallmouth bass and bass fishermen. Anglers working the bays and inlets along the rocky shores of Wisconsin's Door County peninsula skewer half a dozen on a hook and the bass le. upon them avidly, smacking their gills.

Except to fish and fishermen and Ephemerida of the opposite sex, the Green Bay fly or Canadian soldier or American soldier is an unmitigated pest. The town of Green Bay straddles the Fox River where it empties into the waters of Green Bay at its southernmost tip. The Green Bay fly breeds along the marshy shores of the bay.

He is either too light or too lazy to fly against the wind but once in a while, not necessarily every summer, conditions are just right when a hatch comes on. Or just wrong from the Green Bay Sanitation Department's point of view.

About twilight on a quiet evening in June or July, especially if there is a light breeze blowing up river, you can stand on Main Street bridge and see them come up in swarms that darken the sky. The human ear can't detect the sound of a single Green Bay fly in flight, but when they advance in massed formation the whir of their wings sounds like a fight of planes.

They swarm in clouds around street lights and illuminated shop windows and drop to the pavements to make a brown film on the streets. Auto tires make a crackling hiss as they go by, leaving tracks. The Green Bay fly molts once during his lifetime, which lasts only a few hours.

In the morning dead flies lie in drifts on sidewalks in front of store windows, on the street and heaped up in gutters. They give off a strong fishy smell in no way suggestive of Guerlain. This may be why French fur traders and missionaries 300 years ago called my home town Baie des Puans, Bay of the Evil-Smelling People.

On evenings when a hatch is on you see fishermen prowling the streets until long after midnight picking flies off shop windows and stuffing them in brown paper bags. The bugs make no effort to escape. Once they have made it up from the bay and done a few turns around a street lamp, they have no further ambition except to stink up the joint.

Green Bay flies or Canadian soldiers or American soldiers are perfectly harmless. They do not bite or sting and evidently they are digestible, for they do no harm to bass that eat them unless they are on a hook. It's just that a big hatch is such a bloody nuisance. They light on your head and ears and face, in your eyes and in your mouth if you open it. They swarm all over your neck and clothes and as soon as you brush one off 10 others take his place.

That's what happened that night in Cleveland's Municipal Stadium. It was something like 30 years ago. The game started about the time the Canadian soldiers were mobilizing on Lake Erie's shore. The breeze must have been just right, and they headed for the ballpark by the billions, drawn irresistibly by the bright floodlights.

They got in batters' eyes and pitcher's mouths. They harassed infielders trying to handle ground balls and messed up outfielders on balls hit in the air. They drove the umpires wild, which is really only a seven-iron shot. When the game was called, not even the customers complained. They wanted to go somewhere that had screens on the windows so they could drink a beer with nothing in it except foam.

Details have escaped memory — how far the game had progressed, which team was leading, whether the game was replayed entirely or only completed at a later date. It doesn't matter now because it couldn't happen again. Happy Chandler was commissioner when the bugs usurped his authority. Bowie Kuhn would never permit it.

Tom Watson

Finish Changed For Indy 500

INDIANAPOLIS, May 28 (AP) — Mike Mosley was moved from fifth place to third in yesterday's Indianapolis 500, according to official results announced today by the U.S. Auto Club.

Mosley had been credited with completing 199 laps in the unofficial results announced at the end of the race. However, a check by race officials showed he completed 200.

The decision dropped Danny Ongais from third place to fourth, with Bobby Unser moving to fifth.

Rick Mears won the race with an average speed of 158.899 miles an hour. His winning time over the runner-up, A.J. Foyt, was approximately 46 seconds and Mosley was less than three seconds behind Foyt.

Transactions

BASEBALL
American League

DETROIT TIGERS—Sold Milt May, catcher, to the Chicago White Sox.

NEW YORK YANKEES—Sent Brian Doyle, second baseman, to Columbus of the International League. Recalled Ron Davis, pitcher, from Columbus.

FOOTBALL
National Football League

DENVER BRONCOS—Signed Charlie West, defensive back.

NEW ENGLAND PATRIOTS—Signed Ken McCorron, placekicker; Richard Rodenberger, wide receiver, and Larry Dorsey, defensive back.

Canadian Football League

TORONTO ARGONAUTS—Signed Brian Duncan, fullback; James Graham, defensive end; Randy Rogon, wide receiver, and Dave Peck, kicker.

NFL Draft of Linebackers Raises Some Questions

By William N. Wallace

NEW YORK, May 28 (NYT) — The doubts displayed by most of the National Football League teams toward two all-America linebackers, Jerry Robinson of the University of California, Los Angeles, and Bob Golic of Notre Dame, in the recent draft suggest that the scouting process may have become too complex, cautious or conservative in the opening rounds.

Seventeen teams passed over Robinson and all 28 skipped over Golic, some of them twice. Why? In scouting jargon, Robinson was "too small" and Golic "too fat."

The sagacity of these views will not be determined until 1980 or 1981, after Robinson and Golic have been able to show how they compare to the other linebackers in the class of 1979 chosen ahead of them.

Dick Vermeil, the coach of the Philadelphia Eagles, was delighted to have been able to draft Robinson in 21st place on the first round. He is convinced his protege will become an all-pro. Golic, drafted by the New England Patriots in 24th place on the second round, was the 52d player and 11th linebacker chosen, which left him somewhat disillusioned.

Many pro scouts and coaches who spoke to Golic told him that he would be drafted high on the first round. "It's as though these men have no respect for you, the player," he said recently.

When Vermeil was the head coach at UCLA, he recruited Robinson from Cardinal Newman High School in Santa Rosa, Calif. "I thought, before he ever put on a uniform, he'd be the best football player in UCLA history," said Vermeil. "He was just flat-out special. I guarantee he'll make the Pro Bowl."

Vermeil speculates that Robinson lasted so long in the draft because the scouts had him down at a weight of 208 pounds, 25 pounds below the league norm.

Robinson now weighs 216 and Vermeil thinks he will weigh 225 by the time the next pro season begins. "He was a steal as the 21st pick," the coach said. "We had him rated as the fourth best player in the United States."

Rare Choice

After Robinson had been ignored through the first 10 selections Vermeil and his scouting director, Carl Peterson, arched their eyebrows. Would they have the chance to pick someone like this as the Eagles' first first-round choice in six years?

The answer came when the Los Angeles Rams, drafting 19th, picked another linebacker, George Andrews of Nebraska, and the Cleveland Browns followed by taking an unheralded wide receiver, Willis Adams of Houston. Robinson was theirs, the fourth linebacker chosen.

Tom Cousineau of Ohio State was made the number one pick by Buffalo, Barry Krauss of Alabama was chosen by Baltimore and Andrews by the Rams. All three weighed a good deal more than Robinson.

Golic's case was more complex. Because he loved to wrestle and was very good at it, Golic put on 30 pounds after the football season to become effective against 300-pounders in the unlimited class.

When the scouts came around and Golic explained the situation, the replies were, "Oh yes, we understand."

Then there was his knee. Golic, a ferocious tackler and a regular for four seasons, suffered a knee bruise in his next-to-last game against Southern California, but insisted on playing in the Cotton Bowl game, in which he was hurt again.

The scouting rumors were that he needed surgery. But Golic was checked by a platoon of orthopedic surgeons, including the Browns' surgeon in his hometown of Cleveland. "They all agreed it was a common injury," he said, "just a sprained knee."

Fair 40-Yard Time

Another problem was Golic's time in the 40-yard dash, a standard by which all pro scouts swear although only once in 100 games does a player run 40 yards in a straight line. When the scouts came with their stopwatches Golic agreed to run, but explained that the doctors had advised against running while the knee was healing. He ran in a time of 5.0 seconds, regarded as fair.

"The scouts knew my regular time was 4.8," Golic said. "I decided to run rather than refuse because I figured I wanted to control my own destiny rather than leave that up to them."

It did not turn out that way, and Golic lost money in additon to pride because the average contract for a second-round draft choice is worth about $200,000 less than that for a first-round selection. Golic is not bitter, but he does question the scouting process.

Rookie Pitches Red Sox Past the Blue Jays, 1-0

TORONTO, May 28 (AP) — Rookie Chuck Rainey scattered six hits for his first major league shutout and Stan Papi, playing in his first game of the season, hit a run-scoring double in the third inning to give the Boston Red Sox a 1-0 victory over the Toronto Blue Jays here yesterday.

Rainey, 3-2, did not allow more than one hit in any inning. He struck out four and walked three.

Jerry Remy singled with two out in the Boston third off Jesse Jefferson, 0-4, and scored when Papi, playing in place of suspended shortstop Rick Burleson, followed with a double to the left field corner.

Tigers 5, Orioles 1
Tigers 10, Orioles 3

In Detroit, Steve Kemp hit his second home run of the day and Alan Trammell drove in five runs to give Detroit a 10-3 victory over the Baltimore Orioles and complete the Tigers' first doubleheader sweep in more than a year.

In the opener, Kemp — now leading the majors with a .403 batting average — doubled and homered and Jack Billingham pitched a three-hitter in a 5-1 decision that cooled off Baltimore, which had won 26 of its previous 32 games.

Indians 5, Yankees 0
Yankees 5, Indians 4

In Cleveland, Lou Piniella hit a pinch-hit homer with one out in the eighth inning, lifting New York to a 5-4 triumph and a split of its doubleheader with Cleveland. Paul Dade had three hits, including his first home run of the season, and drove in three runs to support the five-hit piching of Rick Wise for a 5-0 Cleveland victory over Ron Guidry in the opener.

Royals 2, Twins 1

In Bloomington, Minn., Todd Cruz hit his first major-league homer with one on in the eighth inning and Steve Busby allowed six hits as Kansas City defeated Minnesota, 2-1.

Angels 4, White Sox 2
Angels 9, White Sox 1

In Chicago, Don Baylor hit a pair of homers and a triple and drove in four runs to lead California to a 9-1 victory and a doubleheader sweep over Chicago that moved California into first place in the American League West. Brian Downing's two-run triple capped a three-run sixth inning and backed the six-hit pitching of Dave Frost as California took the opener, 4-2.

A's 2, Brewers 1

In Milwaukee, Jeff Newman homered and Milt Ramirez singled home the winning run in the seventh inning, lifting Oakland to a 2-1 victory over Milwaukee.

Rangers 7, Mariners 3

In Arlington, Texas, reliever Jim Kern earned his seventh save as Texas scored a 7-3 victory over Seattle. Buddy Bell led the Rangers' attack with three singles.

Phillies 6, Cubs 4

In the National league, at Philadelphia, Steve Carlton pitched a four-hitter for his third straight complete-game victory and Pete Rose had his ninth three-hit game of the season to power Philadelphia past Chicago, 6-4.

Dodgers 8, Reds 7

In Los Angeles, Dusty Baker hit a two-run homer in the seventh inning to rally Los Angeles to an 8-7 victory over Cincinnati.

Astros 4, Padres 3

In San Diego, J.R. Richard picked up his fifth victory and Houston took advantage of two errors by San Diego pitchers and a run-scoring double by Terry Puhl for a 4-2 victory over San Diego.

Expos 8, Cardinals 3
Cardinals 11, Expos 3

In Montreal, George Hendrick hit his third home run and Bob Forsch pitched an eight-hitter to give St. Louis an 11-3 triumph over Montreal and a split of their doubleheader before 52,539 fans. In the opener, Ellis Valentine drove in six runs and Scott Sanderson pitched an eight-hitter to lead Montreal to an 8-3 victory.

Pirates 2, Mets 1

In New York, Bill Robinson's leadoff homer in the ninth inning and clutch relief pitching by Grant Jackson carried Pittsburgh to a 2-1 victory over New York.

Braves 10, Giants 8

In San Francisco, Darrel Chaney's two-out, bases-loaded single in the seventh inning drove in two runs to boost Atlanta to a 10-8 victory over San Francisco.

Red Sox Sub Spent A Season in Hell

By Thomas Boswell

WASHINGTON (WP) — Stan Papi came off the disabled list last week and rejoined the Boston Red Sox after knee surgery.

Root for him.

Before it's over, the versatile Papi, an infield insurance policy the Sox got in trade for pitcher Bill Lee, is going to be in a pennant race this season.

Root hard.

Papi has made it back from the edge of suicide, from what doctors mistakenly told him was insanity. He has overcome a season in hell.

Knee surgery, the normal athlete's idea of utter despair, hardly touches Papi. "I'll beat it," he says. "I'll never worry. . .never again. . .not after '75. . .

"The idea of suicide was sweet to me then," continued the boyish, exuberant 28-year-old, thinking of the year when he believed he was mad. "I didn't care whether I lived or died.

"When the doctors said, 'These electric shock treatments could kill you,' I said, 'Oh, yeah? So what?'

"During those four months in that mental hospital, the psychiatrists had me convinced that I was totally crazy. They had me hating my dad, hating everybody.

"It never crossed my mind that so many doctors could be wrong, that the symptoms of low blood sugar — hypoglycemia, which is what I had — sometimes mimic those of a severe mental breakdown.

"I still have the scars on my temple from the shock treatments — seven times they did it.

"They give you a muscle relaxer and a rubber mouthpiece so you don't snap your bones and break your teeth when the jolt hits you.

"I still remember the headaches afterwards. But that's about all I remember. My memory for '73 and '74 is mostly gone. When I meet guys I played with in the minors, I can't remember their names

"In fact, my memory is not too good on anything. Math is a problem for me. I'm not as quick as I once was."

Papi gives his characteristic self-deprecating laugh and screws up his expressive, handsome face to show how he has to furrow his brow in thought to figure out his batting average.

"Sometimes I still ask myself, 'Why me? Why'd it happen to me?' You wouldn't believe the looks I get when people hear I've been in a mental hospital. They just don't want to talk to me.

"I tell them, 'I wasn't crazy. I had a disease — hypoglycemia.' But they just don't want to look you in the eye.

"Despite everything, I actually think it made me a better person. It certainly made me more determined to prove that nothing was wrong with me and to make the majors."

Since missing a season and a half, Papi has returned to the game a better player — one surrounded by affection.

After being AAA shortstop of the year at Denver in '77, he played all of '78 with the Montreal Expos as a utility man.

When Papi was traded to Boston, Montreal's general manager, Charlie Fox, gave a Red Sox official a lucky penny, saying, "Keep this for Papi. That kid's going to help you a lot. He's got 'winner' written on him now."

One would expect Papi to be adopted by the Red Sox fans. Instead, he has been booed in batting practice before ever playing in a Boston game and is the butt of jokes on talk shows.

Fans think it amusing — poetic justice — that the player the Sox got for the outspoken cult-figure Lee should tear cartilage hustling to first base on the first play of the first spring training game.

"I'm just the guy who was traded for Spaceman Lee, that's all the fans know," says Papi. "He was popular and famous. I'm kind of a nobody. I'll never be the character that he was. But that doesn't mean I'm not just as good a player."

The irony in all Papi's woes is that they have left him open and gregarious, rather than withdrawn. Fielding grounders makes him happy as a kid.

Once diagnosed, Papi cured his hypoglycemia with medication and diet. His acute sucidal depression disappeared.

Not surprisingly, Papi has helped exorcise his memories by facing them — talking freely about his past and visiting patients in mental institutions with similar symptoms.

"Every day I get letters from people who have heard about my case, saying, 'Please send information about hypoglycemia. Someone in my family has the same symptoms,' " Papi says.

Papi always answers, and sometimes visits. "I tell them all the same thing: 'It's simple. Get a full five- or six-hour glucose tolerance test. . .not the two- or three-hour test that some doctors say is enough. Mine didn't show up on the shorter test.

"I believe I've helped turn several people around."

Often, however, Papi meets severe medical opposition. "I'll speak at a banquet and doctors will stand up and fight me tooth and nail," says Papi. "I tell them, 'All I know is what happened to me.' "

Major League Standings

AMERICAN LEAGUE

East	W	L	Pct.	GB
Baltimore	29	14	.674	—
Boston	26	17	.605	2
Milwaukee	26	21	.553	4
New York	24	21	.533	5
Detroit	18	21	.462	8
Cleveland	20	24	.455	8½
Toronto	12	34	.261	17½
West				
California	28	19	.596	—
Minnesota	25	18	.581	1
Texas	26	19	.578	1
Kansas City	26	20	.565	1½
Chicago	22	23	.489	5
Seattle	17	31	.354	11½
Oakland	16	31	.340	12

Sunday's Games
Cleveland 5-4, New York 0-5
Boston 1, Toronto 0
California 4-9, Chicago 2-1
Detroit 5-10, Baltimore 1-3
Kansas City 2, Minnesota 1
Oakland 2, Milwaukee 1
Texas 7, Seattle 3

NATIONAL LEAGUE

East	W	L	Pct.	GB
Philadelphia	27	16	.628	—
Montreal	25	15	.625	½
St.Louis	22	18	.550	3½
Pittsburgh	19	21	.475	6½
Chicago	18	22	.450	7½
New York	15	25	.375	10½
West				
Cincinnati	25	19	.568	—
Houston	26	22	.542	1
San Francisco	25	22	.532	1½
Los Angeles	23	25	.479	4
San Diego	19	29	.396	8
Atlanta	17	27	.386	8

Sunday's Games
Philadelphia 6, Chicago 4
Montreal 8-3, St.Louis 3-11
Pittsburgh 2, New York 1
Los Angeles 8, Cincinnati 7
Houston 4, San Diego 2
Atlanta 10, San Francisco 8

Sunday's Line Scores

NATIONAL LEAGUE

First Game
St. Louis 000 012 000—3 8 1
Montreal 103 040 00x—8 10 1

Denny, Sykes (5), Bruno (5), McEnaney (8) and Simmons, Swisher (6); Sanderson and Carter. W—Sanderson, 3-3. L—Denny, 3-4. HRs—St.Louis, Simmons (9). Montreal, Valentine (4).

Second Game
St. Louis 010 022 105—11 19 1
Montreal 002 000 001— 3 8 1

Forsch and Simmons; Grimsley, Palmer, May (8), Bahnsen (9) and Dyer. W—Forsch. L—Grimsley, 4-3. HR—St. Louis, Hendrick (3).

Chicago 000 001 201—4 4 2
Philadelphia 310 010 01x—6 14 1

Caudill, Moore (6), Hernandez (7) and Foote; Carlton and McCarver. W—Carlton, 6-5. L—Caudill, 0-2. HRs—Chicago, Martin (5). Philadelphia, Luzinski (6).

Pittsburgh 100 000 001—2 8 1
New York 000 000 100—1 5 0

Bibby, Kison (4), Romo (8), Jackson (8) and Nicosia; Kobel, Murray (9) and Stearns. W—Jackson, 3-0. L—Murray, 2-5. HRs—Pittsburgh, Robinson (8). New York, Mazzilli (5).

Houston 001 000 300—4 8 1
San Diego 000 000 020—2 10 2

Richard and Ashby; Rasmussen, Kinney (7), Fingers (9) and Tenace. W—Richard, 5-4. L—Rasmussen, 1-5.

Atlanta 102 023 200—10 7 1
San Francisco 000 402 000— 8 11 1

Solomon, Easterly (4), Devine (6), Skok (6), Garber (7) and Benedict; Blue, Griffin (5), Roberts (6), Moffitt (6), Lavelle (6), Curtis (9) and Sadek. W—Skok, 1-1. L—Moffitt, 0-2. HRs—Atlanta, Matthews (11), Spikes (2). San Francisco, McCovey (4).

Cincinnati 000 111 400—7 11 1
Los Angeles 110 012 30x—8 11 2

Bonham, Hume (6), Borbon (7), Bair (8) and Bench; Messersmith, Rau (7), LaGrow (7), Welch (8) and Ferguson, Yeager (6). W—LaGrow (1-0). L—Borbon (2-1). HR—Thomasson (5), Grifley (5), Baker (5).

AMERICAN LEAGUE

First Game
New York 000 000 000—0 5 2
Cleveland 002 011 10x—5 10 0

Guidry, Clay (6) and Munson; Wise and Alexander. W—Wise, 4-5. L—Guidry, 4-4. HR—Cleveland, Dade (1).

Second Game
New York 201 000 110—5 11 1
Cleveland 100 003 000—4 11 1

Tiant, Kaat (6), Burris (6) and Narron, Johnson (6); Paxton, Hood (3), Spillner (7), Monge (7) and Alexander. W—Burris, 1-0. L—Monge, 2-5. HR—New York, Piniella (4).

Boston 001 000 000—1 7 0
Toronto 000 000 000—0 6 1

Rainey and Cerone; Jefferson and Allenson. W—Rainey, 3-2. L—Jefferson, 0-4.

First Game
California 010 000 010—4 8 0
Chicago 000 100 000—2 6 3

Frost and Downing; Barrios and Foley. W—Frost, 3-2. L—Barrios, 4-2.

Second Game
California 202 003 002—9 14 2
Chicago 010 000 000—1 4 0

Aase and Donohue; Hinton, Scarberry (6), Nordhagen (9) and Nahorodny. W—Aase, 4-4. L—Hinton, 1-1. HR—California, Baylor 2 (8).

First Game
Baltimore 000 000 010—1 3 2
Detroit 102 101 00x—5 8 0

McGregor, Martinez (7) and Dempsey; Billingham and Wockenfuss. W—Billingham, 5-3. L—McGregor, 0-2. HRs—Baltimore, Crowley (1). Detroit, Kemp (7), Wockenfuss (4).

Second Game
Baltimore 110 000 001— 3 8 1
Detroit 140 100 13x—10 11 3

Stone, Martinez (7) and Dempsey; Rozema and Parrish. W—Rozema, 2-2. L—Stone, 3-3. HRs—Baltimore, Kelly (2). Detroit, Kemp (8).

Kansas City 000 000 020—2 7 0
Minnesota 000 000 001—1 6 0

Busby and Porter; Koosman and Wynegar. W—Busby, 2-2. L—Koosman, 7-2. HR—Kansas City, Cruz (1).

Oakland 000 000 200—2 7 1
Milwaukee 100 000 000—1 6 1

McCatty, Heaverlo (9) and Newman; Sorenson and Moore. W—McCatty, 3-0. L—Sorenson, 6-5. HR—Oakland, Newman (8).

Seattle 200 001 000—3 9 1
Texas 300 100 03x—7 12 0

Mitchell, Rawley (1), McLaughlin (8) and Cox; Comer, Kern (8) and Sundberg. W—Comer, 4-4. L—Mitchell, 0-4.

Art Buchwald

Senior Class Solves Its Speaker Problem

WASHINGTON — Every graduating class has the same problem, and that is to find a speaker who will bring honor and as much money for the school as possible.

Very few people realize how graduation speakers are chosen.

This is how it goes: In January, the president calls in the senior class committee and says, "Whom have you chosen as your speaker?"


Buchwald

"We had an election and the senior class has decided it wants Woody Allen."

The president blanches. "Yes, he would make a very good speaker though I'm not sure he would be available. Do you have a second choice?"

"Garry Trudeau, who draws 'Doonesbury.' "

"And your third choice?"

"Jane Fonda."

"Those are all excellent suggestions and I'll do everything in my power to see if we can get them. You'll be hearing from me in a short while."

* * *

In April, the senior class committee returns and the president says, "I regret we were unable to get Woody Allen or Garry Trudeau. The board of trustees turned down Jane Fonda because of health reasons."

"She's perfectly healthy," the senior class chairman says.

"She is, but the school isn't. We have to think of our $10-million building drive. But I do have a marvelous substitute whom I'm sure you will all approve."

"Who is that?"

"Archibald B. Whittington, the Third."

"Archibald B. Whittington, the Third?"

"I'm surprised it doesn't ring a bell with you students. He owns Whittington and Bellows, the largest makers of prefabricated steel in America. Whittington and his family have been friends of the university for years and he is a marvelous speaker. His speech to the National Association of Manufacturers attacking the antiquated antitrust laws, as they relate to steel, was printed in its entirety in Fortune magazine last month."

* * *

"You mean to say the senior class has to sit and listen to an old windbag talk to us about steel on our graduation day?" the senior class chairman cries.

"Now, let's not lose our tempers. I am sure Whittington will not talk about the steel business. He will probably tell you what your generation must do to make this country a better society. I would not be surprised if his message will have an important bearing on all your futures."

"But I thought the senior class had a say on who would be our graduation speaker."

"You had your say. Now I'm having mine. Woody Allen has no intention of leaving any money to this school and neither does Garry Trudeau. Had the class voted for David Rockefeller we might have taken you more seriously. Even Henry Ford would have been acceptable. There is a lot more to graduation than having a good time."

"If you had made up your mind why did you call us in?"

"Because I want Whittington to get a standing ovation from your class. It could be the difference between a new administration building or having to make do with the old one. A president of a university has hard decisions to make, and I hope none of you is ever in the position of having to decide what graduation speaker could do the most good for the school."

"Will that be all, sir?"

"I would like the senior class committee to write Whittington a letter telling him that he was your first choice, and how thrilled you are that he has accepted your invitation."

"And if we don't?"

"Then I can't see any way of financing a winning football team next year."

Border Battles

If You Think You've Got Headaches, Consider the Man in Charge of the Immigration and Naturalization Service

By Henry Allen

WASHINGTON (WP) — After the 30th demonstration, Leonel Castillo, head of the Immigration and Naturalization Service, stopped counting. And he started acquiring a taste in demonstrators, giving points for originality, ingenuity . . .

"They had a good one in San Diego when I was speaking to the National Association of Social Workers," he said, smiling. Castillo smiles a lot.

"They were outside chanting 'Castillo! Coyote! AhhhOooooo!' Meaning I was a turncoat, a scavenger. When they got tired of that, they stormed the meeting. I let one guy talk about how we should open our borders to everyone, and thanked him.

"Afterwards, this guy comes up to me, crew cut and necktie. He sticks out his hand and I shake it. He says, 'I'm from the Ku Klux Klan and we'd like to offer our help.' "

Repertoire of Smiles

Castillo stared at his hand as if it were radioactive.

"You can't believe the people who want to help us," he said, with a shudder behind the smile. He has a repertoire of smiles: of astonishment, frustration, confusion, naivete, embarrassment, futility . . .

With everything from budget air fares to boat people to burgeoning Latin American populations, there is an immigration crisis. And as $50,000 jobs go, Castillo may have the worst one in Washington.

- "Totally out of control," is the way Rep. Elizabeth Holtzman, D-N.Y., has described the service.
- "This is just damned sad," said Rep. Hamilton Fish Jr., R-N.Y., about Castillo's mumbling and helpless silences at a hearing — never mind that Castillo arrived on the Hill with no idea what questions he would be asked.
- "I think I'm the only optimist in the whole place." Castillo has said, "and maybe that's because I didn't know enough."

This day, for instance, has been "fairly typical," he said. "The United Farm Workers called to complain that Mexican nationals are being brought in as strikebreakers. They want us to do something, build a fence, anything."

Wait a second. Isn't the UFW liberal? Don't liberals want open borders?

"You have to realize that it's the growers who want the open borders," he said.

So that puts Chicano-rights groups and the growers on the same side, while allying the farm workers with the Ku Klux Klan?

"And don't forget the conservationists — the Zero Population people, the Sierra Club — they want tighter borders so we don't use up our resources.

"It's like the apple pickers in West Virginia last summer: On the same day, one judge threatened us with contempt if we deported them, and another one threatened us with contempt if we didn't."

Castillo smiled. "The wisdom isn't clear, except I want to treat people decently."

But "when I spent $400 to put soccer balls in our detention facilities, a lot of the old-timers here complained I should be spending the money on enforcement."

The old-timers — clearly they had a world of their own until Castillo arrived, a Carter appointee, in May, 1977. He is 39, the former city controller of Houston, and the youngest INS commissioner ever. He is the grandson of a Mexican immigrant, and he's glad to illustrate just how far things have come by citing a favorite cartoon.

"It shows a man talking to his son. He said, 'Your grandfather was a wetback, I'm an illegal alien, but you, my son, are an undocumented worker.' "

It's hard to imagine that Castillo's hours are much better than his grandfather's. He keeps clothes and shaving cream at his office and sleeps sometimes on a couch underneath a map of the United States.

Castillo, who left his wife and two children behind in Houston, lives in a Foggy Bottom apartment smaller than his office. So riding his bicycle home at night doesn't hold much lure, except to keep him in shape.

It's a smile of astonishment that flashes when he pushes open a fifth-floor door to the world of the old-timers at INS.

"Our files," he says.

Buckled cardboard boxes are stacked to the ceiling, filled with forms done by hand. Atop a file cabinet sit stray photographs and pieces of visa applications which have fallen out of the files.

"That means those people will have to start all over again," Castillo said. "That hurts, especially when you know that they start lining up at midnight outside of our local offices to get a chance just of getting inside the next day, so they can fill out applications which will take 48 months, *four years,* to process."

In the next room, Castillo pointed to women sitting at desks dealing out little slips of paper into stacks.

"This is how we keep track of people, with these little slips. When I got here, we had 60 million of them, for all the aliens who've entered and left the country on visas. We match them up by hand. After the Iranian students rioted in Beverly Hills, the attorney general called up wanting to know how many of them were here. I said, "Get serious.' "


Harry Naltchayan, Washington Post

INS Chief Castillo: The worst $50,000-a-year job in Washington?

There was huge pressure to deport the rioters, even though most hadn't committed deportable offenses. It lasted until the shah was ousted, and then the State Department started asking for special consideration for Iranians, Castillo said, smiling.

Castillo strolled away from the miasma of paper and into a room with rows of computer terminals. He wants to computerize everything, he said, with a smile of eagerness now, because here is where he'll beat Washington at its own game of bureaucracy.

Bureaucratic Monument

"Some of my friends warned me when I came up here — they said it was political suicide. And it has cost me every one of my gray hairs."

But even though his budget is being cut, and INS staff morale is at an all-time low, with his own employees attacking him in print for a "come one, come all" immigration policy, Castillo is sculpting a monument, with bureaucracy as his medium.

"Data base managers," he said. "Data base managers! We never had them before! I'm building this automation right into the bureaucracy, creating whole new designations of people here, like data base managers. Someday, they'll be like the old-timers now, no way to stop them. It'll have its own momentum, it'll be running long after I'm gone!"

For the time being, the INS may be in trouble. But Castillo still smiles.

PEOPLE: *Menuhin Is Honored As Musician of Peace*

Yehudi Menuhin was awarded the 25,000-mark (about $13,000) Peace Prize of the German booksellers for "using music as a chance to bring about peace." The 63-year-old violinist, who grew up in San Francisco, will be given the prize Oct. 14 in Frankfurt's St. Paul's Church, site of the first German parliament. Menuhin is the first musician to receive the prize, presented during the annual Frankfurt book fair.

* * *

The manager-owner of a liquor store in Syracuse, N.Y., paid a record $28,000 for an early-19th-century bottle of French wine. **Charles Maras**, 31, bid $28,000 for a single bottle of 1806 Chateau Lafite at the 11th annual Heublein Premiere National Auction of Rare Wines in Chicago. His closest competitor bid $27,000. **Bert Bidwell** of Aspen, Colo., paid a record $8,000 for a six-bottle case of 19th-century California wine. The six bottles from the Inglenook vineyards are cabernet sauvignons from 1887, 1892 and 1897, pinot noirs from 1892 and 1897 and a Napa zinfandel from 1891. The 1887 cabernet is the last bottle in existence, Inglenook officials said.

* * *

Former U.S. Ambassador to Switzerland **Marvin Warner** has married **Susan Goldwater**, co-host of a nightly television show in Washington. The wedding in Cincinnati, Ohio, was the second trip to the altar for both. Warner earlier this month resigned his post as ambassador, effective July 15. Mrs. Warner is the former wife of U.S. Rep. **Barry Goldwater Jr.**

* * *

With rave reviews from the Russian press and frenzied fans willing to pay up to $225 a seat, British rocker **Elton John** has found the beat — and money — rolls on behind the Iron Curtain. John made his first appearance before a Moscow audience Sunday night and was greeted by a crowd only slightly less exuberant than the dancing-in-the-aisles outpouring that marked last week's concerts in Leningrad.

* * *

Ex-Beatle **John Lennon** and his wife, **Yoko Ono**, said in a full-page ad in The New York Times that they are alive and well and have three angels looking over their shoulder. A letter signed by the couple appeared on the back page of the Times' Week in Review section. The letter said the couple, who live in New York, are in the process of "The Spring Cleaning of our minds. More and more we are starting to wish and pray. The things we have tried to achieve in the past by flashing a V sign, we try now through wishing. Wishing is more effective than waving flags. It works. It's like magic. Magic is simple. Magic is real." . . . Lennon was the only one of the four members of the defunct Beatles rock group who did not attend a reported reunion last weekend in London. **Ringo Starr, Paul McCartney** and **George Harrison** reportedly gathered to celebrate the marriage of rock guitarist **Eric Clapton** to Harrison's former wife, **Patti Boyd.**

* * *

"How could anyone still be interested in us?" sighed **Cecile Dionne Langlois**, one of the three surviving Dionne quintuplets. Forty-five years ago, on May 28 — in the middle of the Great Depression — the birth of five identical sisters in an Ontario farmhouse inspired awe in millions of people. "Everything has changed now," Cecile said in a brief interview in a local shop in St. Bruno, Quebec, where she works, breaking the silence she and her sisters, **Yvonne** and **Annette**, have held for years. The sisters live in comfortable homes within walking distance of each other. Cecile's easy, outgoing manner during a short conversation suggested she had overcome the traumas of an upbringing in the public eye and the sorrows that plagued the quints in younger years. Her sisters, too, appear to be living well-adjusted if unglamorous lives. Yvonne and Annette both work at the library. Annette's three sons, aged 16 to 20, still live at home. She has been legally separated for five years from **Germain Allard**, a Montreal finance company executive. Cecile's teenage children — three boys and a girl — also live with their mother. Her marriage to **Philippe Langlois** ended in divorce in 1964. Langlois has since died. Yvonne, who tried unsuccessfully three times to become a nun, never married and still attends Mass every morning at 8:30. The quints' parents — Oliva and his wife Elzire — live outside Callander in a modest bungalow near the farm where the girls were born. According to Mort Fellman, a former news reporter who covered the Dionne story in the 1930s, the couple still "hope against hope" that they will see their daughters again.

—SAMUEL JUSTICE

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